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News Roundup

- **Hewlett-Packard Co (HP)** said it will cut 24,600 jobs as part of its plan to integrate tech services giant **Electronic Data Systems Corp (EDS)**, providing the first details of how extensive its restructuring of the combined company will be. (Mint)
- The USFDA is expected to limit imports and sales by India's largest drugmaker **Ranbaxy Inc.** (BS)
- **Wipro Technologies** and KPO firm **Copal Partners** have expressed interest in bidding for the Indian back office business of **Lehman Brothers** Holdings, the US-based investment banking firm that filed for bankruptcy protection. (BS)
- **ICICI Bank** will have to take a hit of US\$28 mn on account of the additional provisioning that ICICI Bank's UK subsidiary will have to make (the bank has already made a provision of about US\$12 mn against its US\$80 mn investment in senior bonds of **Lehman Brothers**). (ET, see our comment inside)
- Real estate major **DLF's** proposed SEZ along the Maharashtra-Goa border appears to be facing some trouble over land acquisition as hundreds of local residents protested against the company's compensation package. (ET)
- **Reliance Infrastructure** plans to build a 12 MT steel plant in Jharkhand and will soon achieve financial closure for its mega infrastructure project, the Mumbai Metro Rail project. In other news from the Anil Dhirubhai Ambani Group, **Reliance Capital** has said it will more than triple its current employee base and invest Rs2,000 crore in the insurance business, taking its cumulative investment to nearly a billion dollars. (ET)
- An internal government note circulated among policymakers forecasts inflation will peak at 13.2% next month and will remain in double digits till February 2009. (Mint)
- The Reserve Bank of India (RBI) stepped in yesterday, September 17, to check any potential adverse impact of the global financial turmoil on the Indian markets by announcing measures to ease the liquidity crunch and bolster the weakening rupee. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

EQUITY MARKETS

India	Change, %			
	16-Sep	1-day	1-mo	3-mo
Sensex	13,519	(0.1)	(8.2)	(12.2)
Nifty	4,075	0.0	(8.0)	(10.9)

Global/Regional indices				
Dow Jones	11,059	1.3	(5.2)	(9.9)
FTSE	5,026	(3.4)	(7.9)	(13.3)
Nikkie	11,864	2.2	(8.9)	(17.3)
Hang Seng	18,301	(5.4)	(13.5)	(20.6)
KOSPI	1,430	3.0	(9.1)	(18.3)

Value traded - India				
	Moving avg, Rs bn			
	16-Sep	1-mo	3-mo	
Cash (NSE+BSE)	174.1	168.6	176.2	
Derivatives (NSE)	565.1	476.4	402	
Deri. open interest	862.5	783	836	

Forex/money market

	Change, basis points			
	16-Sep	1-day	1-mo	3-mo
Rs/US\$	46.4	50	290	341
6mo fwd prem, %	0.7	(25)	71	24

Net investment (US\$m)

	15-Sep	MTD	CYTD
FIs	(156)	-	(7,299)
MFs	26	-	2,501

Top movers -3mo basis

Best performers	Change, %			
	16-Sep	1-day	1-mo	3-mo
BHARAT PETROLEU	362	3.9	14.1	29.1
HINDUSTAN PETRO	249	3.8	11.7	28.3
BANK OF BARODA	315	4.3	23.6	23.7
BAJAJ AUTO LIMITE	621	0.9	9.7	22.5
STATE BANK OF INC	1,581	6.1	8.6	13.9
Worst performers				
HOUSING DEVELOP	230	(5.0)	(31.4)	(51.2)
INDIABULLS REAL ES	223	(7.0)	(26.8)	(47.5)
INDIABULLS FINANC	201	(3.2)	(32.5)	(45.1)
TATA STEEL LIMITE	487	(2.8)	(21.1)	(42.8)
INFRASTRUCTURE D	81	(2.2)	(16.2)	(41.7)

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Strategy

Sector coverage view

N/A

Opportunities in uncertainties—banking, trading strategies

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- **Valuations will likely provide downside support; reflects extant earnings risks in most sectors**
- **Economic fundamentals have improved of late**
- **Banking looks the best—sector has upside risks to earnings**

We see buying opportunities in several quality stocks after the recent sharp correction in the Indian market. The market is now trading at the lower end of our valuation and trading band (13,500-17,500 for BSE-30 Index). In particular, we favor investment in the banking sector, which will likely be the biggest beneficiary of improved macro-economic fundamentals. We have accordingly increased the weight (already overweight) on the banking sector further and made other small changes (more underweight on commodities). We see limited downside to the Indian market and see improved economic fundamentals partly counter-balancing global risks.

Valuations are reasonable—support exists unless global events unravel further

We find valuations of the Indian stock market (based on BSE-30 Index) quite reasonable at 13.4X FY2009E earnings and 11.1X FY2010E earnings (see Exhibit 1). The valuations become more attractive at 10.5X FY2009E after adjusting for the fair value of 'embedded' assets. We do not rule out further earnings downgrades despite several downgrades in 1-2QCY09 (see Exhibit 2) but believe that current valuations factor in possible downgrades in several sectors. Exhibit 3 gives valuation and earnings growth of the BSE-30 Index broken down by sectors.

From a portfolio perspective, we continue to focus on sectors and stocks that provide (1) high earnings visibility, (2) reasonable valuations based on earnings and/or 'embedded' assets and (3) low exposure to global issues. Exhibit 4 gives our model portfolio and Exhibit 5 gives our Top-10 list (this is unchanged). In our model portfolio, we have increased the weight of the banking sector and further reduced the weight on global commodities.

We believe weak global GDP growth will likely lead to low demand growth for finished products, which may lead to downward pressure on pricing, especially in industries where incremental capacity addition is very high in CY2008-10E. The technology sector faces similar global headwinds but offers 'decent' valuations also; FY2010E earnings could of course change dramatically if US BFSI clients were to completely slash their IT budgets.

Economic fundamentals have improved dramatically over the past few weeks

We highlight (1) likely peaking out of inflation on the back of lower commodity prices, (2) steep decline in crude oil prices, which will alleviate BOP and fiscal issues and (3) a good monsoon, which will result in a decent kharif output.

1. **Inflation may have peaked, which increases confidence about a decline in interest rates after two quarters.** We believe inflation may have peaked given the recent sharp fall in global commodity and crude oil prices. We do not expect the government to cut retail fuel prices but highlight that inflation will be positively impacted by a decline in prices of industrial fuels, which are not fixed by the government. We note that R&M companies continue to make losses on the four controlled products at current crude oil prices; in case of diesel, the most critical product by volumes, oil companies will break even at US\$63/bbl. Exhibit 6 shows our projected inflation trajectory over the next few months.

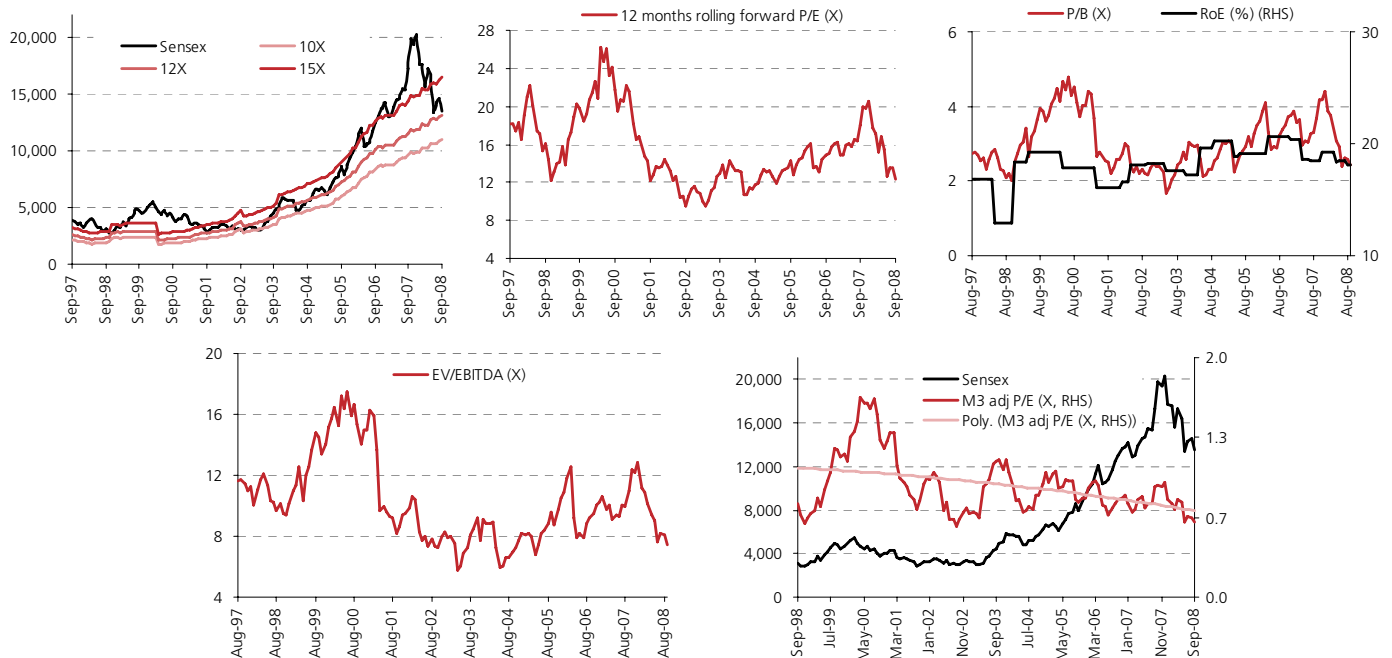
- Lower crude oil prices will alleviate BOP and fiscal problems.** We expect a significant improvement in India's BOP position from the recent steep decline in crude oil prices. A US\$1/bbl decline in crude prices results in lower trade deficit of around US\$600 mn. Exhibit 7 shows sensitivity of India's BOP to various levels of crude oil prices. We note that current crude oil prices are meaningfully below our base-case crude price assumption of US\$110/bbl and other scenarios in the exhibit.
- Good monsoons to result in decent agriculture output.** Exhibit 8 shows that the monsoon has been quite good despite an uncertain start in July 2008. The sowing pattern has been impacted for a few crops as can be seen in Exhibit 9 but we expect the overall Kharif crop to be reasonable. Exhibit 10 shows our GDP growth projections for FY2009E and FY2010E.

Recommend to build positions with a 12-18 month horizon or adopt a fundamental-based trading strategy in likely two-way market of next few months. We recommend investors build positions in fundamentally strong stocks or adopt a fundamental-based trading strategy in solid stocks with a clear view of the fair valuation of the stocks. We concede that the latter may not be easy in volatile markets and the recent developments in the US have painfully raised doubts about fair valuations of assets. Accordingly, we focus on fundamentally-strong stocks where we have a good grip of underlying assets and earnings.

We have shortlisted stocks with (1) market capitalization greater than US\$3.5 bn, (2) we have a clear positive/negative bias on the stock and (3) trading volumes greater than US\$5 mn in both the exchanges (BSE+NSE) combined. Exhibits 11 and 12 list the stocks in which we recommend that investors increase/decrease positions.

1-year rolling forward P/E of BSE-30 Index trading at attractive valuations

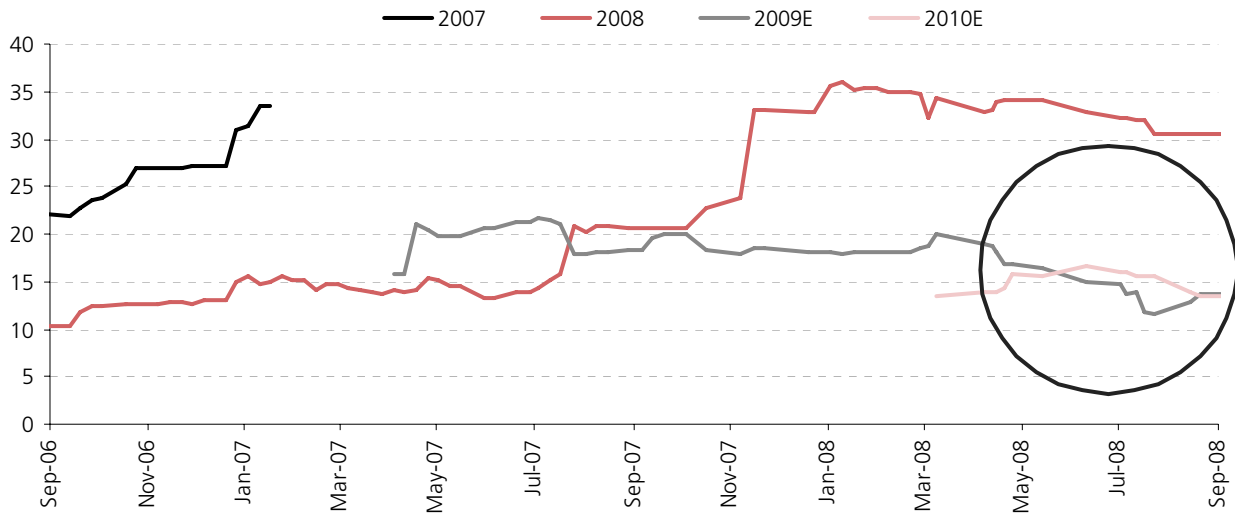
1-year rolling forward P/E, P/B, ROE, EV/EBITDA and M3 growth rate adjusted valuations for BSE-30 Index



Source: BSE, RBI, Kotak Institutional Equities estimates

Sensex (ex-energy) earnings growth has declined sharply in the past few months

Expected growth in sensex ex-energy earnings for FY2008, FY2009E and FY2010E (%)



Source: Kotak Institutional Equities estimates

Valuation summary of BSE-30 sectors

	Mkt cap. (US\$ mn)	Adj mkt cap. (US\$ mn)	EPS growth (%)			PER (X)			EV/EBITDA (X)			Price/BV (X)			RoE (%)		
			2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
Automobiles	12,158	7,453	6.0	(11.9)	(0.2)	12.1	13.8	13.8	7.9	8.3	7.9	2.6	1.7	1.5	21.2	12.0	10.8
Banking	59,694	43,782	43.9	(4.1)	26.6	18.8	19.6	15.5	—	—	—	2.5	2.2	1.9	13.3	11.4	12.5
Cement	6,105	4,228	25.7	(7.9)	(11.7)	7.5	8.1	9.2	4.2	4.3	4.5	1.8	1.5	1.3	23.7	18.2	14.2
Consumers	26,650	16,424	12.2	13.3	14.6	26.2	23.1	20.2	18.5	14.7	12.6	8.9	7.8	6.9	33.8	33.9	34.0
Diversified	3,698	2,219	20.7	54.7	53.5	28.5	18.4	12.0	14.2	10.6	10.0	3.5	3.0	2.5	12.2	16.3	20.6
Energy	97,401	35,678	12.9	24.3	39.1	13.4	10.8	7.8	6.5	5.1	3.7	2.4	1.9	1.7	17.7	17.8	21.3
Industrials	33,113	20,360	23.7	39.0	30.6	30.6	22.0	16.9	17.8	12.5	9.7	6.9	5.0	3.9	22.4	22.7	23.4
Metals	19,958	11,805	12.9	23.9	(7.6)	7.2	5.8	6.3	4.6	4.3	4.1	1.2	1.0	0.8	16.7	16.5	13.3
Pharmaceuticals	3,600	2,520	70.5	(44.5)	83.2	19.4	35.0	19.1	14.0	15.8	8.8	5.6	2.6	1.6	29.0	7.4	8.2
Property	15,358	2,304	284.0	13.9	10.5	9.7	8.5	7.7	8.6	7.3	5.9	3.7	2.7	2.1	38.0	31.7	27.4
Technology	52,043	27,524	19.3	22.9	17.1	16.9	13.7	11.7	12.2	9.6	7.6	5.3	4.2	3.4	31.2	30.3	28.7
Telecom	48,127	16,845	71.6	24.8	21.2	18.2	14.5	12.0	11.5	9.0	7.1	4.4	3.4	2.7	24.5	23.6	22.3
Utilities	38,930	10,544	7.3	8.2	6.9	20.0	18.5	17.3	12.5	13.6	14.6	2.4	2.2	2.0	11.9	11.8	11.8
BSE-30	416,836	201,686	26.9	16.5	20.9	15.6	13.4	11.1	8.8	7.6	6.3	3.0	2.4	2.1	19.0	18.0	18.6
BSE-30 ex-Energy	319,436	166,008	33.1	13.6	13.4	16.4	14.5	12.7	10.1	8.8	7.9	3.2	2.6	2.2	19.5	18.1	17.5
BSE-30 ex-Energy, Com.	293,372	149,974	37.8	12.9	18.5	18.5	16.4	13.8	12.4	10.5	9.0	3.7	3.0	2.6	20.0	18.5	18.5

Note:

(a) EV/EBITDA excludes Banking sector.

Source: Kotak Institutional Equities estimates

Overweight banking, consumers and pharmaceuticals

Kotak Institutional Equities Model Portfolio

Company	16-Sep		Weightage (%)		Diff. (bps)	Company	16-Sep		Weightage (%)		Diff. (bps)
	Price (Rs)	Rating	BSE-30	KS reco.			Price (Rs)	Rating	BSE-30	KS reco.	
Mahindra & Mahindra	534	ADD	1.2	—	(116)	Jindal Steel & Power	1,408	BUY	—	2.0	200
Maruti Suzuki	696	ADD	1.1	1.1	—	Sterlite Industries	478	SELL	1.4	—	—
Tata Motors	399	SELL	1.5	—	(147)	Tata Steel	487	REDUCE	3.0	0.5	(250)
Automobiles			3.7	1.1	(263)	Metals			5.9	2.5	(340)
Punjab National Bank	505	BUY	—	1.0	100	Dr Reddy's Laboratories	537	BUY	—	1.0	100
State Bank of India	1,581	ADD	4.7	6.2	150	Ranbaxy Laboratories	403	REDUCE	1.2	—	(125)
PSU Banking			4.7	7.2	250	Sun Pharmaceuticals	1,418	BUY	—	3.0	300
HDFC	2,176	ADD	5.6	4.6	(100)	Pharmaceuticals			1.2	4.0	275
HDFC Bank	1,230	BUY	4.4	4.4	—	DLF	423	BUY	1.1	1.1	—
ICICI Bank	592	ADD	7.0	9.0	200	Real estate			1.1	1.1	—
Pvt. Banking/Financing			17.0	18.0	100	Infosys Technologies	1,566	BUY	8.1	9.6	150
ACC	582	REDUCE	0.7	—	(70)	Satyam Computer Services	356	BUY	2.4	2.9	50
Grasim Industries	1,929	ADD	1.4	—	(140)	TCS	749	REDUCE	1.9	—	(194)
Jaiprakash Associates	140	BUY	1.1	1.1	—	Wipro	392	ADD	1.2	1.2	—
Cement			3.2	1.1	(210)	Technology			13.6	13.7	6
Hindustan Unilever	241	ADD	2.8	2.8	—	Bharti Airtel Limited	774	REDUCE	5.4	5.4	—
ITC	194	BUY	5.4	7.4	200	Reliance Communications	366	SELL	2.9	—	(292)
Consumers			8.1	10.1	200	Telecom			8.4	5.4	(292)
Oil & Natural Gas Corporation	953	BUY	4.3	6.3	200	NTPC	170	REDUCE	2.2	—	(223)
Reliance Industries	1,928	RS	13.4	8.3	(504)	Reliance Infrastructure	843	BUY	1.4	3.4	200
Energy			17.7	14.6	(304)	Tata Power	976	BUY	1.6	3.6	200
Bharat Heavy Electricals	1,646	ADD	3.0	3.0	—	Utilities			5.2	7.0	177
Larsen & Toubro	2,525	BUY	7.1	7.1	—	Biocon	181	BUY	—	0.6	60
Industrials			10.1	10.1	—	Dishman Pharma & chemicals	306	BUY	—	0.6	60
Zee Entertainment Enterprises	217	ADD	—	1.0	100	Divi's Laboratories	1,373	BUY	—	0.6	60
Media			1.0	1.0	100	Jubilant Organosys	318	BUY	—	0.6	60
Hindalco Industries	114	REDUCE	1.5	—	(146)	Piramal Healthcare	310	BUY	—	0.6	60
Jindal Steel & Power	1,408	BUY	—	2.0	200	Pharmaceutical mid-cap. basket			—	3.0	300
						BSE-30	13,519		100.0	100.0	(0)

Note:

(1) Weights are with respect to September 16, 2008 prices.

Source: Bloomberg, BSE, Kotak Institutional Equities

Biased towards solid long-term stocks

Kotak Institutional Equities Top-10 List

Companies	Sector	Rating	Mkt cap. (US\$ mn)	CMP (Rs)	Target (Rs)	EPS (Rs)			P/E (X)			EV/EBDITA (X)		
						2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
ICICI Bank	Banking	ADD	15,541	592	870	39.9	33.9	42.0	14.8	17.5	14.1	—	—	—
State Bank of India	Banking	ADD	23,565	1,581	1,700	106.6	93.5	119.2	14.8	16.9	13.3	—	—	—
ITC	Consumer products	BUY	17,171	194	230	8.0	9.1	10.4	24.2	21.4	18.7	16.0	14.0	12.0
Larsen & Toubro	Industrials	BUY	17,668	2,525	3,600	75.9	117.5	149.1	33.3	21.5	16.9	20.8	13.0	10.2
Oil & Natural Gas Corporation	Energy	BUY	48,095	953	1,300	92.0	131.5	147.3	10.4	7.2	6.5	3.9	2.9	2.5
Reliance Infrastructure	Utilities	BUY	4,597	843	1,250	37.6	49.4	50.0	22.4	17.1	16.9	29.0	26.2	24.0
Jindal Steel and Power	Metals	BUY	5,118	1,408	2,900	80.4	111.6	117.0	17.5	12.6	12.0	11.4	8.5	7.7
Tata Power	Utilities	BUY	5,368	976	1,540	29.7	38.1	39.9	32.9	25.6	24.5	22.8	20.3	20.9
Sun Pharmaceuticals	Pharmaceuticals	BUY	6,963	1,418	1,780	71.5	84.3	77.5	19.8	16.8	18.3	16.2	12.6	13.1
Mid-cap. pharmaceutical basket														
Biocon	Pharmaceuticals	BUY	428	181	615	22.5	24.5	32.0	8.0	7.4	5.7	4.7	4.4	3.4
Dishman Pharma & Chemicals	Pharmaceuticals	BUY	590	308	515	14.7	19.7	27.7	20.9	15.6	11.1	15.6	11.7	8.7
Divi's Laboratories	Pharmaceuticals	BUY	2,092	1,373	2,330	56.6	77.9	103.6	24.3	17.6	13.3	21.0	14.4	10.3
Jubilant Organosys	Pharmaceuticals	BUY	1,362	318	700	22.1	19.5	35.5	14.4	16.3	9.0	11.5	12.7	8.1
Piramal Healthcare	Pharmaceuticals	BUY	1,531	310	530	17.6	20.0	26.5	17.6	15.5	11.7	12.9	10.7	8.2
BSE-30				13,519										

Source: Company, Bloomberg, Kotak Institutional Equities estimates

US\$1/bbl decline in crude prices results in lower trade deficit of US\$600 mn

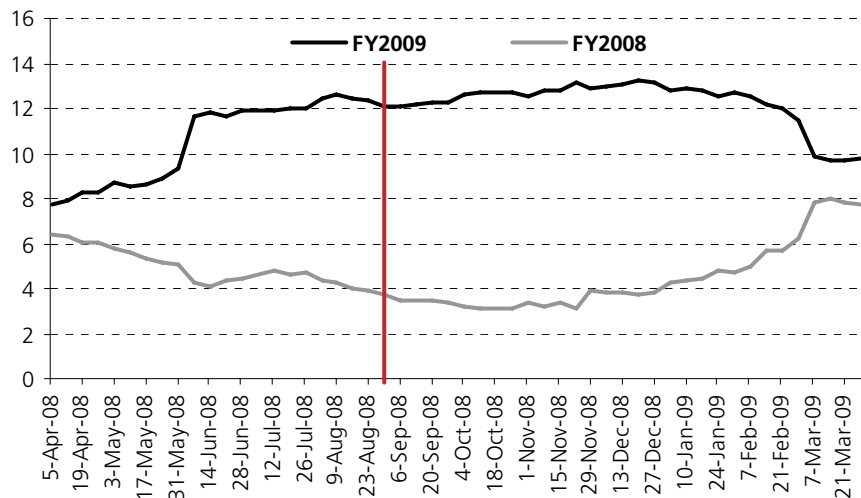
India's balance of payments, March fiscal year-ends, 2007-2009E (US\$ bn)

	FY2008	FY2009E					
		oil@100	oil@110	oil@120	oil@130	oil@140	oil@150
Current account	(17.4)	(16.5)	(23.3)	(29.3)	(34.7)	(45.3)	(53.5)
GDP	1,172.6	1,315.5	1,304.0	1,303.0	1,292.3	1,246.6	1,173.3
% of GDP	(1.5)	(1.3)	(1.8)	(2.2)	(2.7)	(3.6)	(4.6)
Trade balance	(90.1)	(108.6)	(115.7)	(122.1)	(128.2)	(138.7)	(146.4)
% of GDP	(7.7)	(8.3)	(8.9)	(9.4)	(9.9)	(11.1)	(12.5)
Invisibles (net)	72.7	92.1	92.4	92.8	93.5	93.4	92.9
- Services	37.6	46.0	46.0	46.0	45.8	45.5	45.2
of which: Software	37.1	43.5	43.5	43.4	43.2	43.0	42.7
- transfers	41.0	49.2	49.5	49.9	50.8	51.0	50.8
- other invisibles	(4.8)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)
Capital account	108.0	83.0	73.2	64.5	52.8	39.2	10.7
Foreign investment	44.8	35.0	26.8	19.2	8.1	(1.7)	(27.1)
- FDI	15.5	20.0	18.0	16.6	14.1	12.6	11.8
- FII	20.7	9.5	4.9	0.0	(8.0)	(16.0)	(40.0)
- ADRs/GDRs	8.5	5.5	3.9	2.6	2.0	1.7	1.1
Banking capital	11.8	9.2	9.2	9.3	9.5	9.9	10.7
- NRI deposits	0.2	0.8	1.2	1.7	2.8	3.7	4.2
Short-term credit	17.7	10.0	10.1	10.3	10.2	10.0	9.5
ECBs	22.2	19.0	17.5	16.4	16.0	12.6	10.0
Other capital account items	11.6	9.8	9.6	9.3	9.0	8.4	7.6
E&O	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	92.2	66.5	49.9	35.2	18.1	(6.1)	(42.8)
RBI's net forex purchases	69.1	49.9	37.4	26.4	(13.6)	(4.6)	(32.1)
Assumptions							
Average exchange rate (Rs/US\$)		41.2	42.0	43.0	43.5	44.5	47.0

Source: RBI, Kotak Institutional Equities estimates

Expect inflation to moderate by 4QFY09

Headline inflation rate, FY2008 and FY2009E (actual till August 30, 2008; estimates thereafter) (%)



Source: GOI, Kotak Institutional Equities estimates

Monsoon spatially distributed the best in 5-years

Rainfall till August 27, 2008 during the monsoon season

Rainfall	2004	2005	2006	2007	2008	2009
Normal/Excess	34	28	28	23	29	32
Excess	9	1	5	5	12	6
Normal/Excess	25	27	23	18	17	26
Deficient/Scanty	2	8	8	13	7	4
Deficient	2	8	8	13	7	4
Scanty	—	—	—	—	—	—
Total	36	36	36	36	36	36
Foodgrains output (in mt)	213	198	209	217	231	236
Foodgrains growth (%)	22.0	(7.0)	5.2	4.2	5.5	2.4E
Agricultural growth (%)	21.7	(3.1)	8.1	2.9	6.0	1.5E

Source: India Meteorological Department; Ministry of Agriculture; KIE estimates

The sowing pattern has got impacted for a few crops

Output of major foodgrains and cash crops (mn tons)

	2004	2005	2006	2007	2008	2009E	Change (%)
Rice	88.5	83.1	91.8	93.4	96.4	101.0	4.7
Wheat	72.2	68.8	69.4	75.8	78.4	81.9	4.4
Coarse cereals	37.6	33.5	34.1	33.9	40.7	39.3	(3.4)
Pulses	14.9	13.1	13.4	14.2	15.1	14.3	(5.5)
Total foodgrain	213.2	198.4	208.6	217.3	230.7	236.5	2.5
o/w: Kharif	117.0	103.3	109.9	110.6	121.0	121.8	0.7
Rabi	96.2	95.1	98.7	106.7	109.7	114.7	4.5
Non-foodgrains							
Oilseeds (3)	25.2	24.4	28.0	24.3	28.8	29.7	2.9
Sugarcane	233.9	237.1	281.2	355.5	340.6	318.8	(6.4)

Note:

(1) Data for FY2008 are 4th Advance Estimates released by GOI on July 9, 2008.

(2) Data for FY2009 are Kotak Institutional Estimates based on monsoon progress till August 27.

(3) For nine out of total of 11 oilseeds.

Source: Ministry of Agriculture; Kotak Institutional Equities estimates

Real GDP growth likely to remain healthy at 7.7% in 2009E

Real GDP at factor cost and components (growth rates in %)

Sector	2008	2009E	2010E
Agriculture and allied activities	3.8	2.5	3.4
Industry	8.1	6.7	7.2
Mining and quarrying	5.0	5.9	5.1
Manufacturing	8.7	7.0	7.4
Electricity, gas and water supply	6.8	5.8	8.1
Services	10.4	9.5	9.3
Construction	9.9	8.1	7.3
Trade, hotels, transport, storage and communication	11.5	9.6	9.2
Financing, insurance, real estate and business services	11.5	9.1	8.4
Community, social and personal services	7.4	10.3	11.4
Real GDP at factor cost	8.7	7.7	7.9

Source: Central Statistical Organisation, Government of India, Kotak Institutional Equities estimates

We recommend to increase position in the following companies on 'weakness'

List of covered stocks providing attractive short-term trading opportunity

	16-Sep-08		Mkt cap. (US\$ mn)	Statistics since July 21, 2008 (Rs)			Premium to lowest price	Target	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating		High	Low	Average		price (Rs)		
Oil & Natural Gas Corporation	953	BUY	48,095	1,105	953	1,028	—	1,300	36	52
Infosys Technologies	1,566	BUY	21,226	1,789	1,539	1,665	1.8	2,100	34	83
Larsen & Toubro	2,525	BUY	17,668	2,893	2,501	2,664	1.0	3,600	43	120
ITC	194	BUY	17,171	197	179	189	8.5	230	18	23
DLF	423	BUY	17,017	569	423	502	—	660	56	73
HDFC Bank	1,230	BUY	12,294	1,340	1,029	1,210	19.5	1,300	6	50
GAIL (India)	419	BUY	8,358	430	363	398	15.2	470	12	15
Sun Pharmaceuticals	1,418	BUY	6,963	1,540	1,367	1,461	3.8	1,780	26	20
Satyam Computer Services	356	BUY	5,736	433	356	400	—	500	40	40
Tata Power	976	BUY	5,368	1,158	976	1,054	—	1,540	58	30
Jindal Steel and Power	1,408	BUY	5,118	2,186	1,408	1,909	—	2,900	106	24
Reliance Infrastructure	843	BUY	4,597	1,102	839	991	—	1,250	48	103
Jaiprakash Associates	140	BUY	4,097	198	140	168	—	255	83	54
Punjab National Bank	505	BUY	3,757	520	445	484	13.5	650	29	11
Bank of India	290	BUY	3,602	308	251	279	15.4	375	29	28
State Bank of India	1,581	ADD	23,565	1,598	1,309	1,468	20.7	1,700	8	80
Bharat Heavy Electricals	1,646	ADD	19,021	1,831	1,506	1,711	9.3	2,000	22	79
ICICI Bank	592	ADD	15,541	771	592	676	—	870	47	145
HDFC	2,176	ADD	14,741	2,577	2,086	2,321	4.3	2,350	8	72
Wipro	392	ADD	13,403	453	373	425	5.0	490	25	11
Hindustan Unilever	241	ADD	12,363	253	228	241	5.6	280	16	16
Suzlon Energy	201	ADD	7,448	250	195	226	3.3	300	49	41
Maruti Suzuki	696	ADD	4,748	721	562	644	23.8	790	14	16
Grasim Industries	1,929	ADD	4,175	2,089	1,728	1,947	11.6	2,320	20	5
Mahindra & Mahindra	533	ADD	3,250	595	500	559	6.7	640	20	6
Glenmark Pharmaceuticals	572	ADD	3,591	679	572	651	—	770	35	7

Source: Bloomberg, Kotak Institutional Equities estimates

We recommend to decrease position in the following companies on 'strength'

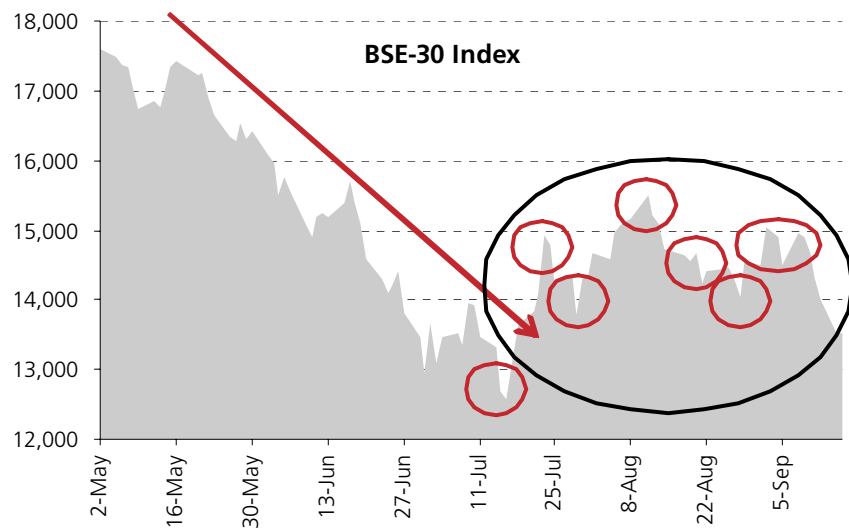
List of covered stocks providing attractive short-term trading opportunity

	16-Sep-08		Mkt cap. (US\$ mn)	Statistics since July 21, 2008 (Rs)			Premium to highest price	Target	Upside (%)	ADVT-3mo (US\$ mn)
	Price (Rs)	Rating		High	Low	Average		price (Rs)		
Sterlite Industries	478	SELL	7,997	508	502	487	(5)	460	(4)	34
Reliance Communications	366	SELL	17,838	526	366	430	(30)	390	7	91
Tata Motors	399	SELL	5,473	434	383	412	(8)	425	7	10
Bharti Airtel Ltd	774	REDUCE	34,683	869	766	811	(11)	840	9	79
NTPC	170	REDUCE	33,169	190	170	178	(11)	179	5	32
TCS	749	REDUCE	17,300	865	749	827	(13)	900	20	27
Reliance Petroleum	148	REDUCE	15,760	174	146	161	(15)	150	1	94
Indian Oil Corporation	418	REDUCE	11,641	453	377	418	(8)	500	20	4
Reliance Power	161	REDUCE	9,090	176	132	163	(9)	180	12	43
Unitech	140	REDUCE	5,368	187	140	164	(25)	190	36	36
Axis Bank	696	REDUCE	5,876	764	620	705	(9)	750	8	66
National Aluminium Co.	418	REDUCE	6,357	444	369	402	(6)	370	(11)	6
Hindalco Industries	114	REDUCE	4,675	138	114	126	(18)	150	32	11
IDEA	79	REDUCE	4,937	91	78	85	(13)	100	26	17
Ranbaxy Laboratories	403	REDUCE	3,989	523	403	488	(23)	520	29	68
ABB	820	REDUCE	4,102	919	771	864	(11)	875	7	10
Siemens	477	REDUCE	3,799	582	477	545	(18)	570	19	7
Hero Honda	854	REDUCE	4,027	870	718	808	(2)	790	(8)	6
HCL Technologies	222	REDUCE	3,634	257	196	226	(14)	250	13	5
PFC	124	REDUCE	3,357	147	124	134	(16)	130	5	4
Cairn india	199	ADD	8,758	250	199	234	(20)	245	23	37
Cipla	218	REDUCE	3,997	241	218	231	(10)	230	6	8

Source: Bloomberg, Kotak Institutional Equities estimates

Multiple 'V' and 'inverted-V' shaped movements post fall in May 2008

Performance of BSE-30 Index



Source: Bloomberg

Based on bottom-up analysis, BSE-30 Index is offering an attractive return of 21%

Current price versus target price for BSE-30 Index companies

		Price (Rs/share)		Upside	Mkt cap. (US\$ mn)	
		16-Sep-08	Target	(%)	16-Sep-08	Target
Reliance Industries	Energy	1,928	2,050	6.3	53,994	57,409
Oil & Natural Gas Corporation	Energy	953	1,300	36.5	43,407	59,243
Bharti Airtel Limited	Telecom	774	840	8.5	31,298	33,963
NTPC	Utilities	170	179	5.0	29,936	31,446
Infosys Technologies	Technology	1,566	2,100	34.1	19,157	25,682
State Bank of India	Banking	1,581	1,700	7.5	21,268	22,872
DLF	Property	423	660	56.1	15,358	23,969
Reliance Communications	Telecom	366	390	6.5	16,829	17,928
Bharat Heavy Electricals	Industrials	1,646	2,000	21.5	17,167	20,859
TCS	Technology	749	900	20.2	15,614	18,765
Larsen & Toubro	Industrials	2,525	3,600	42.6	15,946	22,731
ICICI Bank	Banking	592	870	47.0	14,026	20,625
ITC	Consumers	194	230	18.3	15,497	18,335
HDFC	Banking	2,176	2,350	8.0	13,305	14,371
Wipro	Technology	392	490	25.1	12,096	15,138
Tata Steel	Metals	487	520	6.9	8,521	9,107
Hindustan Unilever	Consumers	241	280	16.4	11,153	12,985
HDFC Bank	Banking	1,230	1,300	5.7	11,096	11,724
Satyam Computer Services	Technology	356	500	40.4	5,177	7,266
Tata Motors	Automobiles	399	425	6.6	4,940	5,264
Tata Power	Utilities	976	1,540	57.8	4,845	7,645
Hindalco Industries	Metals	114	150	32.0	4,219	5,569
Reliance Infrastructure	Utilities	843	1,250	48.2	4,149	6,150
Ranbaxy Laboratories	Pharmaceutical	403	520	29.0	3,600	4,643
Jaiprakash Associates	Diversified	140	255	82.5	3,698	6,750
Maruti Suzuki	Automobiles	696	790	13.5	4,285	4,864
Grasim Industries	Cement	1,929	2,320	20.3	3,768	4,532
Sterlite Industries	Metals	478	460	(3.8)	7,218	6,944
Mahindra & Mahindra	Automobiles	534	640	20.0	2,934	3,519
ACC	Cement	582	610	4.9	2,338	2,452
BSE-30 Index		13,519	16,305	20.6	416,836	502,748

Source: Bloomberg, Kotak Institutional Equities estimates

Energy**CAIR.BO, Rs199**

Rating	ADD
Sector coverage view	Cautious
Target Price (Rs)	245
52W High -Low (Rs)	343 - 125
Market Cap (Rs bn)	371.0

Financials

December y/e	2007	2008E	2009E
Sales (Rs bn)	16.6	35.7	71.3
Net Profit (Rs bn)	1.9	7.3	38.4
EPS (Rs)	(0.1)	3.9	20.3
EPS gth	(108.2)	-	430.2
P/E (x)	(1,666)	50.6	9.8
EV/EBITDA (x)	46.4	20.6	6.8
Div yield (%)	-	-	-

Shareholding, June 2008

	% of Pattern Portfolio	Over/(under) weight
Promoters	64.8	-
FIs	10.5	(0.7)
MFs	1.7	(0.8)
UTI	-	(1.5)
LIC	2.0	(0.8)

Cairn India: Upgraded to ADD—recent correction provides decent upside

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- **Stock price is discounting reasonable crude price (US\$68/bbl) in perpetuity**
- **Stock has corrected by 20% in September 2008 alone; offers potential 23% upside**
- **Revised rating to ADD (REDUCE previously) with a 12-month DCF-based target price of Rs245**

We have upgraded Cairn stock to ADD from REDUCE noting the sharp correction in the stock price in September 2008 (20%); the stock now offers 23% potential upside to our 12-month DCF-based target price of Rs245. We believe that risks to Cairn's valuation have reduced meaningfully after the recent sharp correction in the stock price and crude oil prices. We note that the stock price is now (1) discounting crude price of US\$68/bbl in perpetuity, which seems reasonable and (2) no accretion to reserves. We like Cairn's fundamentals given its (1) strong resource base in Rajasthan with recoverable reserves at 1.1 bn bbls (including 300 mn bbls of EOR), (2) potential of new discoveries in its 12 exploration blocks and (3) strong execution capabilities. Key downside risks stems from further decline in crude prices—may result in correction in Cairn's stock price.

Reward-risk balance more favorable after recent steep correction. We believe Cairn stock offers a good entry opportunity after its recent correction. Cairn stock has declined by 20% in September 2008 and now offers 20% potential upside to our 12-month DCF-based target price of Rs245. Cairn stock has declined by 30% over the past three months led by decline in crude price (-US\$42/bbl) and has significantly under-performed the local index (BSE Sensex), which declined by 12% over the same period (see Exhibit 2).

Cairn's stock price has high positive correlation with crude oil prices although the valuation for Cairn does not vary significantly with higher crude oil prices. Thus, we would be aggressive in buying the stock when the stock is discounting a 'low' crude oil price in perpetuity. We believe this is the case currently. Our normalized long-term crude price is US\$75/bbl based on the economics of a Canadian oil sands producer, which we treat as a marginal-cost producer.

Our reverse valuation exercise suggests that Cairn's current stock price is discounting US\$68/bbl crude oil (Dated Brent) price in perpetuity based on (1) Rs41/US Dollar and (2) current reserves of Rajasthan block. We assume crude oil price (Dated Brent) of US\$75/bbl from CY2013E onwards to arrive at 12-month forward valuation of Rs245. However, we do not assume any cess or royalty on Cairn's portion of crude oil and assume a small discount of US\$5/bbl versus Dated Brent price (the latter may be higher given the quality of Cairn's crude), which we see as downside risks to our fair valuation.

We see Rs180-250 as a good trading band for Cairn stock. Our current valuation for Cairn stock comes to Rs204 (12-month fair value is Rs244) at US\$75/bbl in perpetuity from CY2013E. The 12-month forward valuation rises to Rs282 if we change our normalized crude price assumption (beyond CY2013E) to US\$100/bbl and declines to Rs207 based on US\$50/bbl (see Exhibit 3).

We value Cairn India stock at Rs245

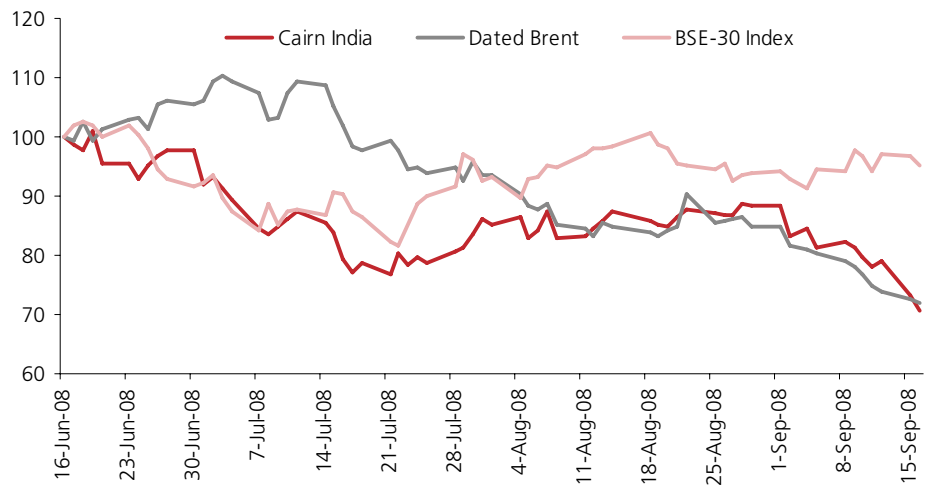
EV and equity value of Cairn (US\$ mn)

	Now	+ 1-year	+ 2-years
RJ-ON-90/1	8,668	10,155	11,150
CB-OS-2	133	87	59
Ravva	485	407	343
Upside potential (KG-DWN-98/2)	100	112	125
Total	9,386	10,761	11,678
Net debt	39	(247)	(161)
Equity value	9,347	11,008	11,839
Equity shares (mn)	1,891	1,891	1,891
Equity value per share (Rs/share)	204	244	268

Source: Kotak Institutional Equities estimates

Cairn stock has corrected significantly led by decline in crude prices

Relative performance of Cairn stock price, crude price and BSE-30 Index (%)



Source: Bloomberg, Kotak Institutional Equities

Cairn's Rajasthan field's enterprise value has moderate leverage to crude prices

Enterprise value sensitivity of Cairn to key variables (US\$ bn)

	Sensitivity of current valuation			Sensitivity of +1-year valuation		
	Enterprise value (US\$ bn)	Equity value (Rs/share)	Change from base case (%)	Enterprise value (US\$ bn)	Equity value (Rs/share)	Change from base case (%)
Average crude prices (2013 and beyond)						
Dated Brent price (US\$110/bbl)	10.8	251	23	12.5	297	21
Dated Brent price (US\$100/bbl)	10.2	238	16	11.8	282	15
Dated Brent price (US\$90/bbl)	9.6	224	10	11.1	267	9
Dated Brent price (US\$80/bbl)	9.0	211	3	10.5	252	3
Dated Brent price (US\$75/bbl)	8.7	204		10.2	244	
Dated Brent price (US\$60/bbl)	7.8	184	(10)	9.2	222	(9)
Dated Brent price (US\$50/bbl)	7.2	171	(16)	8.5	207	(15)
Dated Brent price (US\$40/bbl)	6.6	157	(23)	7.8	192	(22)
Cess, royalty						
Royalty (Rs0/ton), Cess (Rs0/ton)	8.7	204		10.2	244	
Royalty (Rs0/ton), Cess (Rs927/ton)	8.3	195	(4)	9.7	234	(4)
Royalty (Rs0/ton), Cess (Rs2,575/ton)	7.5	179	(12)	8.9	216	(12)
Royalty (Rs481/ton), Cess (Rs927/ton)	6.0	146	(29)	7.3	179	(27)
Royalty (Rs481/ton), Cess (Rs2,575/ton)	5.4	132	(35)	6.6	164	(33)

Source: Kotak Institutional Equities estimates

Cairn's earnings are highly leveraged to crude prices

Earnings sensitivity of Cairn to key variables

	2009E			2010E			2011E		
	Downside	Base case	Upside	Downside	Base case	Upside	Downside	Base case	Upside
Average crude prices									
Crude price (US\$/bbl)	93.0	95.0	97.0	88.0	90.0	92.0	88.0	90.0	92.0
Net profits (Rs mn)	37,296	38,400	39,503	120,338	123,232	125,946	91,636	94,480	96,792
Earnings per share (Rs)	19.7	20.3	20.9	63.6	65.2	66.6	48.4	50.0	51.2
% upside/(downside)	(2.9)		2.9	(2.3)		2.2	(3.0)		2.4
Exchange rate									
Rs/US\$	41.8	42.8	43.8	41.1	42.1	43.1	40.1	41.1	42.1
Net profits (Rs mn)	37,283	38,400	39,517	120,243	123,232	126,041	91,737	94,480	96,690
Earnings per share (Rs)	19.7	20.3	20.9	63.6	65.2	66.6	48.5	50.0	51.1
% upside/(downside)	(2.9)		2.9	(2.4)		2.3	(2.9)		2.3

Source: Kotak Institutional Equities estimates

Profit model, balance sheet, cash model of Cairn 2006-2013E, calendar year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013N
Profit model (Rs mn)								
Net sales	18,417	16,561	35,699	71,266	190,872	185,351	180,393	146,028
EBITDA	5,332	6,705	17,316	53,326	148,520	113,239	79,711	62,972
Other income	1,100	1,324	207	301	1,185	2,990	4,496	5,616
Interest	(201)	(27)	(7)	—	—	—	—	—
Depreciation	(497)	(4,589)	(6,284)	(6,893)	(8,785)	(8,287)	(8,409)	(8,390)
Pretax profits	5,734	3,413	11,231	46,733	140,920	107,942	75,798	60,199
Extraordinary items	—	(2,120)	—	—	—	—	—	—
Tax	(1,580)	(740)	(3,832)	(7,089)	(16,589)	(12,904)	(9,331)	(7,260)
Deferred taxation	(22)	(764)	(74)	(1,244)	(1,099)	(558)	(131)	129
Net profits	4,132	(212)	7,325	38,400	123,232	94,480	66,336	53,067
Earnings per share (Rs)	2.3	(0.1)	3.9	20.3	65.2	50.0	35.1	28.1
Balance sheet (Rs mn)								
Total equity	292,804	294,358	327,029	365,429	422,276	461,435	488,929	510,924
Deferred tax liability	4,258	4,916	4,991	6,235	7,334	7,892	8,023	7,895
Total borrowings	5,122	3,124	—	—	—	—	—	—
Current liabilities	39,716	8,372	2,597	2,532	6,210	10,703	15,014	12,365
Total liabilities and equity	341,900	310,771	334,617	374,196	435,820	480,030	511,967	531,184
Cash	61,348	1,504	10,353	6,874	61,042	110,285	147,328	174,451
Current assets	6,470	19,029	3,423	6,834	18,303	17,773	17,298	14,003
Total fixed assets	17,609	25,157	56,288	69,570	25,900	23,600	21,195	18,854
Net producing properties	2,354	4,390	3,862	30,228	69,883	67,680	65,454	63,184
Investments	4	7,129	7,129	7,129	7,129	7,129	7,129	7,129
Goodwill	254,115	253,193	253,193	253,193	253,193	253,193	253,193	253,193
Deferred expenditure	—	370	370	370	370	370	370	370
Total assets	341,900	310,771	334,617	374,196	435,820	480,030	511,967	531,184
Free cash flow (Rs mn)								
Operating cash flow, excl. working capital	2,990	6,387	10,560	44,087	129,781	98,884	68,930	54,262
Working capital changes	34,256	(908)	9,831	(3,475)	(7,791)	5,023	4,787	646
Capital expenditure	(5,619)	(11,739)	(33,970)	(44,391)	(2,622)	(2,333)	(2,329)	(2,329)
Investments/Goodwill	(252,717)	(53,863)	—	—	—	—	—	—
Other income	1,100	1,298	207	301	1,185	2,990	4,496	5,616
Free cash flow	(219,990)	(58,824)	(13,372)	(3,479)	120,554	104,564	75,885	58,196
Key assumptions								
Gross production ('000 boe/d)	91.0	78.4	81.3	115.0	245.6	240.2	231.7	224.2
Net production ('000 boe/d)	25.1	21.5	25.7	52.6	147.0	145.7	141.9	139.0
Dated Brent (US\$/bbl)	65.3	70.3	110.0	95.0	90.0	90.0	90.0	75.0
Discount of Rajasthan crude to Dated Brent (US\$/bbl)	2.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0

Source: Kotak Institutional Equities estimates

Banking**ICBK.BO, Rs592**

Rating	ADD
Sector coverage view	Attractive
Target Price (Rs)	870
52W High -Low (Rs)	1465 - 514
Market Cap (Rs bn)	658.3

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	169.5	181.6	226.1
Net Profit (Rs bn)	41.6	37.7	46.7
EPS (Rs)	39.9	33.9	42.0
EPS gth	15.4	(15.1)	23.8
P/E (x)	15	17.5	14.1
P/B (x)	1.4	1.3	1.2
Div yield (%)	1.9	1.4	1.8

Shareholding, June 2008

	% of		Over/(under)
	Pattern	Portfolio	weight
Promoters	-	-	-
FIs	67.7	7.2	5.1
MFs	6.0	3.4	1.4
UTI	-	-	(2.0)
LIC	8.2	4.0	2.0

ICICI Bank international operations will likely take more MTM hits— appears mirrored in price already

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- **ICICI Bank to take additional MTM hit on international book, both due to widening spread and Lehman bankruptcy**
- **We estimate hit to be lower than last year as spreads have widened less than last year so far, and the bank has reduced credit derivative exposure**
- **We retain ADD rating and target price of Rs870 per share**

Given rising credit spreads, ICICI Bank will likely take more MTM hits in FY2009 on its international bond portfolio. We believe ICICI Bank BVPS will likely be impacted by 1% to 1.7% (assuming spreads do not widen anymore) and the stock will trade at 0.67X PBR standalone entity at this book. We believe the concerns are more than factored in the current price and we reiterate our ADD rating and 12 month target price of Rs870 per share.

Most of the exposure in UK subsidiary. ICICI Bank UK and Canada have an exposure of around US\$5 bn and US\$1 bn, respectively. We believe nearly 65% of its exposure in Canada is to treasury paper and the MTM hit will largely be concentrated in its UK subsidiary. ICICI Bank's UK subsidiary has an exposure of US\$80 mn in senior debt to Lehman. The company expects to recover around 50% of this on liquidation. The bank also has an exposure of US\$25 mn to AIG.

MTM hit in FY2008 at US\$435 mn. ICICI Bank had taken MTM hit of US\$435 mn in FY2008—US\$220 mn on CDO and US\$215 mn on investment book. Of this, US\$235 mn was on international subsidiaries (US\$220 mn in its UK subsidiary) and US\$170 mn on the India book.

MTM hit on investment book will likely be lower. Given the lack of detailed information we are unable to quantify additional losses. However, we believe the hit will likely be lower in FY09 compared with FY08 as the increase in spread across most international securities in Sep '08 over Mar '08 is less than that between Mar '08 and Mar '07. Additionally, ICICI Bank has reduced its exposure to international credit derivative products to US\$80 mn, from US\$600 mn. We believe aggregate losses at current spreads could range between US\$150 mn and US\$250 mn, implying a book value hit of 1% to 1.7%, post tax. We would like to highlight here that the current spreads likely reflect a significantly negative market sentiment and any resolution on AIG may lead spreads to recover and MTM hit to reduce.

Movement of credit default spreads on 1-yr senior debt paper (bps)

	Mar-07	Mar-08	Chg in spreads		Jun-08	15-Sep-08	Chg in spreads	
			Mar '08 over	Mar '07			Sep '08 over	Mar '08
AIG	5.8	211.3	205.5		235.4	3,389.3	3,178.0	
Citi Bank	2.3	173.3	171.1		83.7	183.6	10.3	
Morgan Stanley	7.0	230.0	223.0		265.6	682.3	452.3	
Merill	6.0	337.5	331.5		292.0	468.5	131.0	
UBS	1.9	119.9	118.0		68.9	99.9	(20.0)	
Goldman Sachs	13.0	166.7	153.7		121.2	306.9	140.2	
Lehman Brothers	7.0	333.1	326.1		437.3			
Standard Chartered	1.1	35.9	34.8		30.4	39.8	3.9	
Freddie Mac	1.5	38.3	36.8		41.1	42.6	4.3	
Fannie Mae	2.0	31.0	29.0		41.0	40.0	9.0	

Source: Bloomberg.

Key details of the investment book and provisions made by ICICI Bank

In US\$ mn

	ICICI Bank standalone	International bank subsidiaries	Total
Total investments as on March 2008			
	1,500	6,200	7,700
Credit derivative products	1,500	700	2,200
CLN/CDS			1,600
CDO			600
Investments in bonds	—	5,500	5,500
Total provisions made during FY2008	170	265	435
Adjusted against networth		140	140
MTM hit in the P&L account	170	125	295

Source: Company.

Utilities**RLEN.BO, Rs843**

Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	1,250
52W High -Low (Rs)	2641 - 660
Market Cap (Rs bn)	194.7

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	83.5	92.5	115.2
Net Profit (Rs bn)	8.9	11.4	11.5
EPS (Rs)	37.6	49.4	50.0
EPS <i>gth</i>	13.9	31.3	1.2
P/E (x)	22.4	17.1	16.9
EV/EBITDA (x)	29.0	26.2	24.0
Div yield (%)	0.8	0.9	1.0

Shareholding, June 2008

	% of Pattern Portfolio	Over/(under) weight
Promoters	36.7	-
FIs	19.6	0.5
MFs	5.2	0.8
UTI	-	(0.5)
LIC	11.5	1.5

Reliance Infrastructure: Stable business, cash comfort and growth opportunities

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- **Cash accounts for a significant 60% of the current market price**
- **EPC to provide earnings growth; extant power business to provide stable cash flows**
- **Trading at 1.15X P/B and 17X P/E on FY2009E**
- **Reiterate BUY rating and target price of Rs1,250/share**

We believe that a strong and liquid balance sheet, predictable cash flows of existing business puts Reliance Infrastructure (RELI) in an excellent position to exploit emerging growth opportunities in power and infrastructure development. We note Rs516/share of cash with RELI accounts for about 60% of the current market price of Rs843/share. The extant power operations provide steady cash flows while growth in EPC business will likely result in RELI's EPS to increase at a CAGR of 14% during FY2008-11E. We estimate sharp increase in EPS beyond FY2012E when power projects in RPWR and some of the infrastructure projects start contributing significantly to earnings. RELI's stock price has corrected by 15% during the past one month and is now trading at 1.15X P/B and 17X P/E on FY2009E. We reiterate our BUY rating on the stock. Our SOTP-based target price of Rs1,250/share offers 48% upside from the current market price.

Cash accounts for a significant 60% of the current market price. RELI has cash worth Rs516/share in its books—net cash (after accounting for unallocable debt) of Rs252/share (Rs58 bn) in the standalone company and additional attributable Rs264/share for its 45% stake in Reliance Power (RPWR), which has cash and equivalents of Rs135.5 bn. Adjusted for cash of Rs516/share, the current market cap of RELI implies a value of Rs327/share (US\$1.7 bn) for the existing operations and growth opportunities. RELI's extant businesses include—(1) 941 MW of generation capacity, (2) distribution businesses in Mumbai and Delhi, (3) EPC business with revenues of Rs14 bn in FY2008 and outstanding order book of Rs210 bn.

Power business likely to provide stable cash flows, EPC business and other infra projects to propel growth. The earnings growth from the regulated power business is a function of capex incurred to increase the return-yielding equity base. We expect sedate growth in Mumbai license area as it needs lesser capex compared to Delhi where large investments are being made to improve the T&D infrastructure and reduce losses. We expect RELI's EPC business to benefit from the large capacity addition planned (~28,200 MW) by RPWR as well as increased orders from IPPs/state generation companies. Our value of the EPC business at Rs115/share could see a significant upside as we have not included the orders expected from RPWR in our financial projections. We note that current order book of Rs210 bn includes only one contract from RPWR—the EPC contract of Rs128 bn for the 3,960 MW Sasan UMPP.

Traction on existing urban infrastructure projects, tapping other opportunities in infrastructure space. Infrastructure projects do not currently contribute to the revenues and profits of RELI. However, Reliance Infracore—the urban infrastructure arm of RELI—is demonstrating steady progress in execution of urban infrastructure projects undertaken. The five road projects (400 km in Tamil Nadu) have achieved financial closure and as per management two of these projects will likely commission in FY2009. Mumbai Metro project has tied-up term loans of Rs12 bn and will likely achieve financial closure shortly. Management expects to commission the ahead of the scheduled commissioning of September 2012. In addition to steady progress shown by RELI in execution of extant urban infrastructure projects, RELI has pre-qualified to bid for several other projects in the urban infrastructure space. These include—(1) 32 km Mumbai Metro Phase-2 (est. cost Rs80 bn), (2) 20 km MRTS project in Amritsar (est. cost Rs50 bn), and (3) 136 km Eastern Peripheral Expressway at Delhi (est. cost Rs40 bn).

SOTP-based target price of Rs1,250/share. We retain our BUY rating and target price of Rs1,250/share. Our SOTP-based target price comprises—(1) Rs177/share from the existing generation, transmission and distribution businesses, (2) Rs115/share for the EPC business, (3) Rs673/share for 45% stake in Reliance Power valued at 20% discount to our target price of Rs180/share, (4) Rs19/share as the equity-value of the five BOT road projects under-construction and (5) cash and investible surplus in books of Rs252/share. We note RELI is focusing on the infrastructure space and has several projects (roads, metros etc) at the initial implementation stage that could be significantly value accretive. Our SOTP includes only the value accretion from road projects and await substantial progress (including financial closure) for other projects before ascribing any value to these projects.

Reliance Infrastructure, Sum-of-the-parts valuation

	Methodology	Key assumptions	Per share value (Rs)												
BSES (Mumbai distribution, Dahanu)	DCF-equity CoE: 12% Terminal year growth: 2%	The business enjoys a stable regulated regime and very high predictability of cash flows. We have not built in any incremental generation capacity in Mumbai.	131												
Other generating assets - BAPL, RSPCL, BSES Kerala Power, Windmills	DCF-equity CoE: 12% Terminal year growth: Nil	We assign a value of 1.8X Price to Book as FCFe for these projects is likely to be ~16-18%. Gas power stations are liable to get returns based on availability, irrespective of lower PLF caused by unavailability of natural gas.	31												
Delhi distribution 26% equity stake	DCF-equity CoE: 12% Terminal year growth: 4%	Distcoms earn 16% RoE on achieving the specified A,T&C loss reduction. The distcoms earn higher returns in the event of bettering the benchmarks. Our valuation takes a hit due to past capex of Rs5.35 bn disallowed by the regulator.	15												
EPC business	EV/EBITDA 8X FY2010E - inline with the Engineering sector in Kotak coverage universe	<table border="1"> <thead> <tr> <th></th> <th>FY2008</th> <th>FY2010E</th> </tr> </thead> <tbody> <tr> <td>Revenues (Rs mn)</td> <td>14,444</td> <td>33,220</td> </tr> <tr> <td>EBITDA (Rs mn)</td> <td>1,087</td> <td>3,322</td> </tr> <tr> <td>EBITDA %</td> <td>7.5</td> <td>10.0</td> </tr> </tbody> </table>		FY2008	FY2010E	Revenues (Rs mn)	14,444	33,220	EBITDA (Rs mn)	1,087	3,322	EBITDA %	7.5	10.0	115
	FY2008	FY2010E													
Revenues (Rs mn)	14,444	33,220													
EBITDA (Rs mn)	1,087	3,322													
EBITDA %	7.5	10.0													
Road projects 5 BOT projects under construction	DCF-equity CoE: 15%	RELI has spent ~Rs5 bn till March 2008 out of the total projected capex of Rs30 bn. Our DCF-equity valuation implies a weighted average P/B of 1.7X for these five projects.	19												
Reliance Power Limited 45% stake	DCF-equity CoE: 12.5% - 15%	We use a 20% discount to our target price of Rs180/share for RPWR.	673												
Cash and investible surplus on books	Book value	<table border="1"> <tbody> <tr> <td>Marketable securities & cash on books (Rs mn)</td> <td>97,267</td> </tr> <tr> <td>Less unallocable debt (Rs mn)</td> <td>(39,192)</td> </tr> <tr> <td>Net cash and investible surplus (Rs mn)</td> <td>58,074</td> </tr> </tbody> </table>	Marketable securities & cash on books (Rs mn)	97,267	Less unallocable debt (Rs mn)	(39,192)	Net cash and investible surplus (Rs mn)	58,074	252						
Marketable securities & cash on books (Rs mn)	97,267														
Less unallocable debt (Rs mn)	(39,192)														
Net cash and investible surplus (Rs mn)	58,074														
Total			1,235												

Source: Company data, Kotak Institutional Equities estimates.

Profit model, balance sheet, cash model 2007-2012E, March fiscal year-ends (Rs mn)

	2007	2008	2009E	2010E	2011E	2012E
Profit model (Rs mn)						
Net sales	68,489	83,462	92,474	115,159	165,574	190,340
EBITDA	5,503	5,722	9,003	10,778	15,784	20,334
Other income	8,455	11,744	10,159	10,337	10,315	10,180
Interest	(3,130)	(4,021)	(4,761)	(5,467)	(7,604)	(10,045)
Depreciation	(3,032)	(3,074)	(3,951)	(4,467)	(5,075)	(5,600)
Pretax profits	7,796	10,371	10,450	11,180	13,420	14,868
Tax	(238)	(1,891)	(1,621)	(1,730)	(2,988)	(3,695)
Minority interest / share of associates	(15)	379	2,574	2,095	2,268	6,678
Net profits	7,543	8,859	11,403	11,545	12,700	17,851
Extraordinary items	802	2,923	(1,869)	—	—	—
Earnings per share (Rs)	33.6	37.3	49.4	50.0	55.0	77.3
Balance sheet (Rs mn)						
Total equity	95,344	163,587	171,739	185,362	198,787	215,380
Deferred taxation liability	2,511	2,678	2,645	2,858	2,835	2,699
Total borrowings	66,304	59,036	78,166	94,457	103,543	100,340
Current liabilities	32,729	38,615	41,537	55,794	89,224	103,186
Service line deposits from customers	246	202	202	202	202	202
Minority interest	0	513	513	513	513	513
Total liabilities and equity	197,134	264,630	294,802	339,185	395,103	422,318
Cash	22,263	1,154	2,025	335	4,477	16,189
Current assets	78,730	96,361	91,856	110,082	141,885	161,358
Total fixed assets	43,919	50,118	83,924	111,771	131,744	127,774
Investments	52,222	116,997	116,997	116,997	116,997	116,997
Deferred expenditure	—	—	—	—	—	—
Total assets	197,134	264,630	294,802	339,185	395,103	422,318
Free cash flow (Rs mn)						
Operating cash flow, excl. working capital		15,023	13,452	16,224	17,752	23,315
Working capital		(11,745)	7,427	(3,969)	1,627	(5,512)
Capital expenditure		(9,468)	(37,757)	(32,315)	(25,047)	(1,630)
Investments		909	—	—	—	—
Free cash flow		(5,281)	(16,878)	(20,059)	(5,669)	16,173

Source: Company data, Kotak Institutional Equities estimates.

EPC to contribute to the bulk of growth in profits

Breakup of standalone EBITDA of RELI, March fiscal year-ends (Rs mn)

	2008	2009E	2010E	2011E	CAGR (%)
Extant distribution and generation business	4,782	4,702	4,887	4,940	1%
EPC business	1,087	1,668	3,322	6,067	76%
Standalone EBITDA	5,868	6,371	8,209	11,007	23%

Source: Company data, Kotak Institutional Equities estimates.

Others**ABAN.BO, Rs2328**

Rating	ADD
Sector coverage view	0
Target Price (Rs)	2,700
52W High -Low (Rs)	5555 - 2012
Market Cap (Rs bn)	90.0

Financials

March y/e	2008	2009E	2010E
Sales (Rs bn)	20.2	38.5	52.6
Net Profit (Rs bn)	1.2	10.3	18.9
EPS (Rs)	72.3	263.4	482.1
EPS gth	-	264.4	83.0
P/E (x)	32.2	8.8	4.8
EV/EBITDA (x)	16.9	8.1	5.3
Div yield (%)	0.2	0.4	0.6

Shareholding, June 2008

	% of	Over/(under)
	Pattern Portfolio	weight
Promoters	60.9	-
FIs	16.3	0.3 (0.0)
MFs	4.8	0.4 0.1
UTI	-	- (0.3)
LIC	-	- (0.3)

Aban Offshore: New contracts in-line with estimates, upgrade to ADD

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- **Aban Pearl contracted for five years at US\$286,000 per day; FY2010E revenue visibility increases to 57%**
- **Recent contract announcements in line with estimates, support our dayrate assumptions**
- **Upgrade to ADD on account of 16% upside potential and improving revenue visibility**

Aban announced a five-year contract for its submersible rig 'Aban Pearl' at a dayrate of US\$286,000 with 3% annual increment. We highlight that the dayrate was marginally lower than our estimates of US\$300,000. Further, the management expects new contract announcements for idle rigs in the near-term; two rigs remain idle currently. The new contract announcements increase FY2010E revenue visibility to 57% from 48%. Recent contract announcements have been in line with our day rate assumptions and we do not expect any significant upside to our estimates. Impending jackup supply and softening crude prices may constrain jackup dayrates. However, given the 16% upside potential and improving revenue visibility, we upgrade the stock to ADD from REDUCE but maintain our target price. 5% lower jackup dayrates would lower our target price to Rs2,300.

New contract announcements in line with estimates

Aban recently announced contracts for its submersible rig—Aban Pearl and new build jackup rig—DD 7 for at dayrates in-line with our estimates. The new contracts confirm our dayrate assumptions and support our revenue estimates (see Exhibit 1).

- **Aban Pearl contracted for five years.** Aban announced a five year contract for its submersible rig—Aban Pearl. The rig will be working in Venezuela at a day rate of US\$286,000 with 3% annual increment. Aban Pearl is currently undergoing repairs and is expected to be operational by the beginning of November 2008.
- **DD 7 gets 3 month contract at US\$200,000.** Aban had recently contracted its newbuild jackup rig DD7 at US\$200,000 with Coastal Energy of Thailand. The contract is for a three month period with an extendable option of three months. The rig will be mobilized to the site by mid-September 2008.
- **Management guides for closing few more contracts shortly.** Management has guided positively for shortly finalising contracts for its currently idle rigs Aban VII and Murmanskaya. We believe contracting of these idle rigs and three other jackup rigs (DD 3, DD4, DD5) which are nearing contract completion will further increase the revenue visibility.

FY2010E revenue visibility improves to 57%; non-contracted jackups remain a concern

The recent contract announcements have improved the FY2010E revenue visibility to 57% from 48% earlier. However, jackups remain vulnerable to softening day rates as only 40% of FY2010E jackup revenues is contracted till now. Large addition of newbuild to the global jackup fleet over the next 15-20 months can push jackup dayrates lower.

Oil price impact—wide fluctuation makes long-term decision making difficult

We believe wide fluctuations on the oil price movement make decision making difficult for long-term E&P project viability. We do not foresee any immediate cancellation of the projects due to the recent sharp correction in oil prices. The current crude oil price of around US\$90/bbl does not necessitate a reduction in E&P capex by the oil companies. However, if the oil price continues its downward trend then few of the ultra-deepwater projects may be put on hold. We believe strong oil price movements may have short-term sentimental impact on the stock prices (see Exhibit 4).

Upgrade to ADD as recent contracts increase revenue visibility; maintain TP

We upgrade our rating to ADD (from REDUCE) supported by increased revenue visibility and positive guidance from management for more contract closure in the near-term. We maintain our 12-month DCF-based target price of Rs2,700 which provides 16% upside from current levels. We expect jackup dayrates to be stable around -5% to + 5% of the current levels over the next year. Our sensitivity analysis shows that the current stock price values 5% lower dayrates than our current estimates, hence we expect limited downside risks from the current levels (see Exhibit 5).

Exhibit 1: Recent contract announcements have been in-line with our estimates

	Contract rate (US \$)	Our estimate (US \$)	Difference (%)
Aban Pearl	286,000	300,000	(4.7)
DD 7	200,000	195,000	2.6
Deep Venture	495,000	445,000	11.2
DD 8	200,000	195,000	2.6

Source: Company, Kotak Institutional Equities estimates.

Exhibit 2: Aban Offshore, Fleet details

Name	Contract period		Day rates		Status	Comments
	Start date	End date	Currency	Amount		
Fleet- Aban Offshore Ltd.						
Aban-II	26-May-07	25-May-10	INR	3,680,000	Operational	
Aban-III	1-Mar-08	28-Feb-11	USD	156,600	Operational	
Aban-IV	30-Dec-07	29-Dec-10	USD	156,600	Operational	
Aban-V	1-Mar-08	28-Feb-11	USD	156,600	Operational	
Aban-VI	1-Jan-08	1-Jan-14	EUR	62,450	Operational	Current dayrate for first 3 yrs, next 3 yrs to be decided over the course of contract
FPU Tahara	27-Jul-07	27-Jul-09	USD	87,500	Operational	
Drillship Frontier Ice	1-Apr-08	30-Sep-08	USD	43,000	Operational	Contracted with ONGC at Rs6.2 mn / day from Jan '09-Dec '11
Fleet- Aban Singapore Pte Ltd						
Aban-VII					Non-operational	Uncontracted
Aban-VIII	1-Jun-08	30-May-12	USD	199,500	Operational	
Aban Abraham					Under refurbishment	Delivery extended to Sep 2008; contracted for 3 yrs at US\$325,000/day for first year and \$410,000 thereafter
Aban Pearl	1-Nov-08	30-Oct-13	USD	286,000	Under refurbishment	Delivery by end-Oct 2008, 3% annual increase in day rates
Fleet- Sinvest						
Murmanskaya					Non-operational	Currently under minor repairs and uncontracted
Deep Driller 1	8-May-07	7-May-09	USD	194,000	Operational	
Deep Driller 2	29-Dec-07	30-Jul-08	USD	185,500	Operational	Post July 2008, contracted for 90 days for US\$17 mn and 210 days for US\$38 mn in Malaysia (~US\$185,000/day)
Deep Driller 3	13-Jul-07	30-Sep-08	USD	225,000	Operational	Original contract upto July 2008, management informs extension of contract upto September 2008
Deep Driller 4	22-Oct-07	31-Oct-08	USD	197,000	Operational	
Deep Driller 5	1-May-08	31-Dec-08	USD	190,000	Operational	
Deep Driller 6					Under construction	Delivery expected in September 2008, uncontracted
Deep Driller 7	1-Oct-08	31-Dec-08	USD	200,000	Mobilizing	3 months extension option
Deep Driller 8			USD	200,000	Under construction	Delivery expected in January 2009, contracted at US\$200,000 for 150 days with HOEC
Deep Venture	30-Jun-07	31-Jul-09	USD	450,000	Operational	18 month contract with Maersk Oil Angola at US\$495,000 / day to begin from July 2009 after completion of current contract

Source: Company, Kotak Institutional Equities.

Exhibit 3: Aban, revenue visibility and percentage of rig days uncommitted, March fiscal year-ends 2009-2011E

	9MFY09E (1)	2010E	2011E
Revenue visibility (%)			
Jackups	85	40	31
Semi-submersible	69	79	77
Drillship	100	100	95
Total	86	57	51
Uncommitted days (%)			
Jackups	29	58	69
Semi-submersible	50	47	50
Drillship	—	—	5
Total	27	48	57

Note: (1) Estimated for the remaining nine months of FY2009E.

Source: Company, Kotak Institutional Equities estimates.

Exhibit 4: Comparative share price performance of global rig companies versus crude oil (%)

	5D	1M	3M	6M	1 Yr	2 Yr	3 Yr
Brent Crude	(10)	(19)	(32)	(17)	16	44	48
Aban Offshore	(2)	(3)	(38)	(36)	(23)	145	447
Noble Corp	(3)	(14)	(35)	(14)	(12)	12	33
Diamond Offshore Drilling	(2)	(6)	(24)	(18)	(6)	19	80
Ensco International Inc.	(5)	(11)	(26)	(9)	8	23	51
Atwood Oceanics Inc.	(1)	(8)	(31)	(18)	(6)	(27)	12
Pride International Inc.	(8)	(16)	(29)	(8)	(10)	4	24
Transocean Inc.	(3)	(7)	(20)	(15)	3	35	94
China Oilfield	(20)	(24)	(45)	(45)	(50)	91	163

Source: Bloomberg.

Exhibit 5: Higher dayrates and low operating costs provide upside to valuation

Sensitivity of DCF-based valuation to change in dayrates and operating costs (Rs/share)

		Dayrates		
		+5%	Base	-5%
Opex cost	-5%	3,235	2,848	2,461
	Base	3,074	2,687	2,300
	+5%	2,913	2,526	2,139

Source: Kotak Institutional Equities estimates.

Exhibit 6: Comparative valuation of drilling services companies

Company	17-Sep-08			Mkt Cap. (US\$ mn)	EV/EBITDA (X)			PER (X)			CAGR (2 yr) (%)		
	Price (local)	Currency	Year-end		LFY	FY1	FY2	LFY	FY1	FY2	EPS	Revenue	EBITDA
Aban Offshore	2,331.0	INR	Mar	2,096	16.6	8.1	5.2	33.5	9.0	4.8	162.8	61.3	67.7
China Oilfield Services-H	7.4	HKD	Dec	6,757	10.7	8.5	7.3	13.6	10.4	9.0	23.2	22.7	21.2
Atwood Oceanics	36.7	USD	Sep	2,348	12.1	8.3	5.3	16.5	11.2	6.9	55.3	33.8	51.0
Diamond Offshore	101.6	USD	Dec	14,121	9.6	6.3	5.1	16.5	10.2	8.2	41.9	28.2	36.4
EnSCO International	57.6	USD	Dec	8,250	5.7	4.8	4.5	8.5	6.8	6.4	15.7	14.1	13.0
Noble Corp.	42.4	USD	Dec	11,417	6.6	5.2	4.2	9.4	7.3	5.8	27.1	19.5	25.6
Pride International	32.6	USD	Dec	5,642	6.4	5.4	4.8	12.5	8.9	7.8	26.6	12.7	15.4
Transocean	116.8	USD	Dec	37,259	15.3	7.3	6.6	8.0	8.0	7.1	5.6	47.9	52.5

Source: Bloomberg, Kotak Institutional Equities estimates for Aban Offshore.

Exhibit 7: Aban, change in estimates, March fiscal year-ends, (Rs mn)

	Revised estimates			Old estimates			Change (%)		
	2009E	2010E	2011E	2009E	2010E	2011E	2009E	2010E	2011E
Revenue	38,490	52,576	50,565	38,892	52,574	50,423	(1.0)	0.0	0.3
EBITDA	25,572	35,674	32,999	25,892	35,870	33,056	(1.2)	(0.5)	(0.2)
EBITDA margin (%)	66.4	67.9	65.3	66.6	68.2	65.6	—	—	—
Adjusted net profit	10,279	18,878	19,320	10,600	19,110	19,423	(3.0)	(1.2)	(0.5)
Diluted EPS (Rs)	258.8	481.1	492.5	267.1	487.1	495.2	(3.1)	(1.2)	(0.5)

Source: Kotak Institutional Equities estimates.

Exhibit 8: Profit model, balance sheet, cash model (consolidated) for Aban Offshore, 2006-2012E, March fiscal year-ends (Rs mn)

	2006	2007	2008	2009E	2010E	2011E	2012E
Profit model							
Total income	4,902	7,187	20,211	38,490	52,576	50,565	51,087
EBITDA	2,847	3,842	12,691	25,572	35,674	32,999	32,937
Interest (expense)/income	(456)	(2,836)	(6,533)	(9,187)	(7,952)	(6,176)	(4,636)
Depreciation	(1,014)	(1,266)	(2,549)	(4,247)	(5,628)	(4,950)	(5,000)
Other income	125	662	733	1,067	1,419	1,369	1,382
Pretax profits	1,502	403	4,342	13,205	23,513	23,242	24,683
Tax	(587)	(665)	(1,514)	(4,174)	(6,055)	(5,552)	(5,722)
Deferred taxation	(91)	(81)	84	90	—	—	—
Profit after tax	823	(344)	2,912	9,121	17,458	17,690	18,961
Associate income / (loss)	—	204	853	1,159	1,419	1,630	1,751
Reported consolidated net profit	823	(140)	3,765	10,279	18,878	19,320	20,712
Diluted earnings per share (Rs)	19.8	(7.5)	69.7	258.8	481.1	492.5	533.1
Balance sheet							
Total equity	2,804	2,248	5,063	16,756	34,630	52,495	70,831
Preference capital	1,500	3,060	3,060	3,260	3,260	3,260	1,250
Deferred taxation liability	656	737	654	563	563	563	563
Total borrowings	11,098	108,525	130,434	121,702	100,426	78,237	55,580
Current liabilities	1,105	6,949	7,517	8,777	9,478	10,056	11,094
Total liabilities and equity	17,163	121,520	146,727	151,058	148,358	144,612	139,319
Cash	135	13,264	6,453	3,999	2,438	3,407	2,230
Other current assets	1,369	5,926	7,637	10,714	14,635	14,075	14,136
Goodwill	126	48,063	44,289	44,289	44,289	44,289	44,289
Tangible fixed assets	15,340	49,584	81,958	85,665	80,604	76,449	72,272
Investments	192	4,683	6,391	6,391	6,391	6,391	6,391
Total assets	17,163	121,520	146,727	151,057	148,357	144,612	139,318
Free cash flow							
Operating cash flow, excl. working capital	1,866	2,111	3,146	13,086	22,884	22,710	24,143
Working capital changes	211	(198)	(1,654)	(2,124)	(3,453)	687	55
Capital expenditure	(8,404)	(35,697)	(32,638)	(7,954)	(568)	(795)	(823)
Investment changes	84	(52,157)	(386)	—	—	—	—
Other income	65	119	458	1,351	1,623	1,560	1,569
Free cash flow	(6,177)	(85,822)	(31,074)	4,358	20,485	24,162	24,944
Ratios (%)							
EBITDA margin	58.1	53.5	62.8	66.4	67.9	65.3	64.5
Debt/equity	364.1	3,737.3	2,335.1	721.5	294.6	153.6	79.6
Net debt/equity	358.9	3,100.3	2,104.8	672.3	274.8	138.6	70.1
RoAE	23.8	(4.7)	51.7	59.4	53.6	36.4	29.0
RoACE	8.3	(3.8)	3.4	11.8	17.6	17.6	18.5

Source: Company data, Kotak Institutional Equities estimates.

Exhibit 9: Aban, day rate assumptions, March fiscal year-ends, 2008-2012E (US\$/day)

	2008	2009E	2010E	2011E	2012E	Contract status		
						Day rates	End date	
Aban India								
Jackups								
Aban-II	91,702	87,619	87,619	87,619	83,238	US\$	90,864	25-May-10
Aban-III	66,217	156,600	156,600	156,600	156,600	US\$	156,600	28-Feb-11
Aban-IV	82,650	156,600	156,600	155,353	155,353	US\$	156,600	29-Dec-10
Aban-V	66,217	156,600	156,600	155,996	155,996	US\$	156,600	28-Feb-11
Aban-VI	51,836	98,047	98,047	98,047	94,615	US\$	93,051	1-Jan-14
FPU								
Tahara	67,667	87,500	89,164	90,417	93,129	US\$	87,500	27-Jul-09
Drillship								
Frontier Ice	42,500	80,173	147,262	147,262	154,625	INR	6,185,000	31-Dec-11
Aban Singapore								
Jackups								
Aban-VII	169,200	170,000	170,000	170,000	170,000	—	—	—
Aban-VIII	—	199,500	199,500	199,500	199,500	US\$	214,286	30-May-12
Drillship								
Aban Abraham	—	325,000	388,629	410,000	430,500	US\$	410,000	(1)
Semi-submersible								
Aban Pearl	—	286,000	290,265	298,973	307,943	US\$	286,000	31-Oct-13
Sinvest								
Jackups								
Murmanskaya (2)	111,667	195,000	190,125	—	—	—	—	—
Deep Driller 1	194,000	194,000	188,795	188,180	188,180	US\$	194,000	7-May-09
Deep Driller 2	125,000	185,168	180,952	177,333	177,333	US\$	185,500	31-May-08
Deep Driller 3	225,000	209,805	190,051	184,350	184,350	US\$	225,000	30-Sep-08
Deep Driller 4	197,000	195,694	190,486	190,486	190,486	US\$	197,000	31-Oct-08
Deep Driller 5	205,000	191,257	186,200	180,614	180,614	US\$	210,000	31-Dec-08
Deep Driller 6	—	195,000	195,000	189,150	189,150	—	—	—
Deep Driller 7	—	200,000	194,000	188,180	188,180	US\$	200,000	31-Dec-08
Deep Driller 8	—	—	200,000	200,000	200,000	US\$	200,000	1QFY10E
Deep Venture	450,000	443,857	471,533	495,000	495,000	US\$	450,000	31-Jul-09

Note:

(1) 3 yrs contract after delivery, first year at \$325,000 and then \$410,000 thereafter.

(2) Bareboat charter expiring in Nov '09; we do not expect a renewal.

Source: Company data, Kotak Institutional Equities estimates.

Energy

Sector coverage view

Cautious

Company	Rating	Price, Rs	
		16-Sep	Target
IOC	REDUCE	418	500
BPCL	REDUCE	362	360
HPCL	REDUCE	249	260

BPCL, HPCL, IOCL: Use recent rally in R&M stocks to exit the stocks

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- **Crude prices may have come off but are nowhere near comfort zone**
- **Weakening rupee has partly offset the benefits of decline in crude prices**
- **Use recent run-up in stocks to exit as significant downside risks to earnings exist**

We see the recent rally in R&M stock led by sharp decline in crude prices as perplexing given (1) significant weakening of rupee and (2) continued high marketing losses. BPCL, HPCL and IOCL stocks have surged 6-24% since September 1, 2008 led by a sharp decline in crude prices and likely lower gross under-recoveries. Lower crude prices will lead to lower losses but we note that even at current levels at crude prices (US\$87/bbl) and exchange rate of Rs46.6/US\$, under-recoveries will likely remain high at ~Rs1.5 tn (Rs771 bn in FY2008). More important, there is no clarity on FY2009E earnings of the downstream oil companies. We expect the government to reduce the amount of oil bonds proportionately. We advise investors to exit positions at current levels as significant downside risks exist to earnings of downstream companies.

Earnings of downstream companies—more variables than just crude oil price.

We note that earnings of downstream companies will continue to depend on contributions from the government and upstream companies towards under-recoveries apart from the level of crude oil prices. Also, refining margins and inventory gains/losses are critical and we are not very hopeful about these two factors in FY2009E compared to FY2008 when the companies benefited significantly from high refining margins and large inventory gains.

We believe that the government will likely adjust the amount of oil bonds in line with crude oil prices. Thus, we suspect the government will give the downstream oil companies as much oil bonds as required to keep the companies' FY2009E profits at FY2008 levels. In FY2008, the companies reported a combined PBT of Rs152 bn only when average crude price was US\$79/bbl and exchange rate was Rs40.3/US\$ (Exhibit 2).

We believe that earnings of PSU R&M companies will also be under pressure given likely decline in profits of the refining segment. The strong performance of the refining division was able to shield the losses of the marketing division of these companies to some extent in FY2008 and 1QFY09. However, we do not expect this to be the case in FY2009E and FY2010E given (1) likely lower benchmark refining margins and (2) lower/nil adventitious gains versus FY2008E unless crude prices rise sharply later in the year. We highlight that crude prices (Dated Brent) were at US\$100/bbl on February 29, 2008 versus US\$61 on February 29, 2007. Exhibit 3 shows the reported refining margins, inventory gains and overall profitability of BPCL, HPCL and IOCL for FY2008.

Crude prices might have tumbled but marketing losses continue to be high.

Crude prices have declined significantly after touching a record high of US\$145/bbl (Dated Brent price) in July2008. However, even at current levels of crude price (US\$87/bbl), the market losses continue to be high; we compute marketing margin at -Rs3.4/liter for gasoline, -Rs7.1/liter for diesel and subsidy loss of Rs300/cylinder on LPG and Rs27/liter for kerosene. We note that current losses on the four regulated products are significantly higher than FY2008 losses (see Exhibit 4).

However, if we assume an exchange rate at Rs42/US\$ versus Rs46.6/US\$ currently, the marketing losses will decline to -Rs0.5/liter for gasoline (versus -Rs3.4/liter currently) and -Rs3.9/liter for diesel (versus -Rs7.1/liter currently).

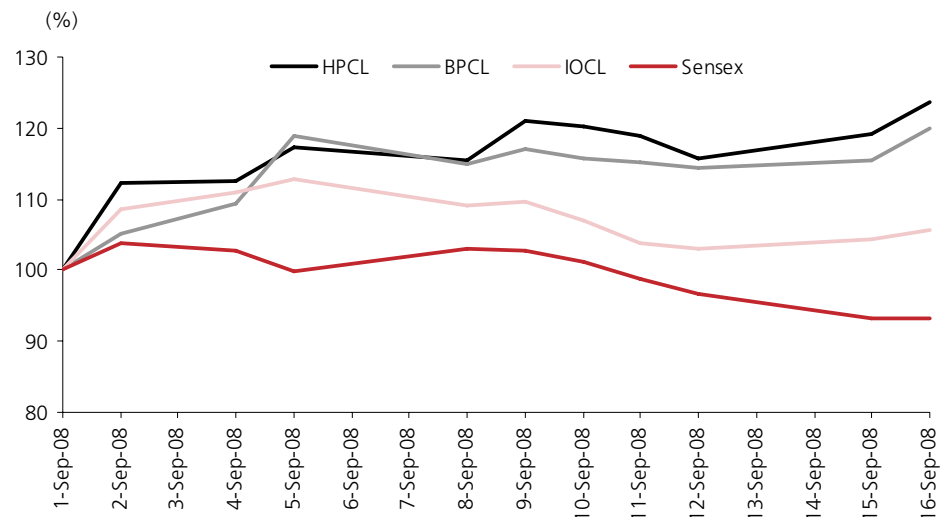
The current loss of Rs3.4/liter on gasoline translates into US\$12/bbl price, which means the crude price should fall to US\$75/bbl (assuming Brent at US\$87/bbl) for breakeven on gasoline. Similarly for diesel, the current loss of Rs7.1/liter translates into US\$25/bbl price, which means crude price should fall to US\$63/bbl for breakeven on diesel. However, the exercise assumes that the fall in crude price will translate into a similar fall in product price.

Weakening rupee partly offsets the impact of decline in crude price. We would not be overly excited about the impact of recent steep decline in crude oil prices on gross under-recoveries for the industry given the offsetting impact of a weakening rupee. Crude prices (Dated Brent) have declined by 29% (US\$36/bbl) since July 31, 2008; however, the rupee has also weakened by 10% over the same period. We note that even at current levels of crude prices (US\$87/bbl) and exchange rate of Rs46.6/US\$ for the remaining part of FY2009, under-recoveries will be ~Rs1.5 tn (Exhibit 5), which is significantly higher than FY2008 subsidy loss of Rs771 bn.

Exhibit 2 gives the under-recoveries at various levels of crude price. At US\$120/bbl Dated Brent price, we compute gross under-recoveries at Rs1.9 tn. We note that at a crude price of US\$120/bbl, the net subsidy burden to be borne by downstream companies would be Rs311 bn, assuming upstream companies bear 33.3% of the under-recoveries and the government gives oil bonds worth Rs946 bn. This is significantly higher than Rs161 bn of net under-recoveries of downstream companies in FY2008 and Rs 151 bn of pre-tax profits. If the government caps the subsidy loss for upstream companies at Rs450 bn and issues only Rs946 worth of oil bonds, the net under-recoveries for downstream companies would jump to Rs489 bn. This is significantly higher than the downstream sector's FY2008 adjusted pre-tax profits (before under-recoveries).

R&M companies have outperformed the market significantly in September 2008

Relative stock performance of BPCL, HPCL and IOCL (%)



Source: Bloomberg

Gross under-recoveries will likely be significantly higher in FY2009E

Share of various participants of under-recoveries, March fiscal year-ends, 2006-2009E (Rs bn)

	2006	2007	2008	2009E			1Q 2009
Dated Brent crude oil price (US\$/bbl)	57	65	79	110	120	131	113
Subsidy loss	400	494	771	1,630	1,886	2,162	519
Payment by government (oil bonds)	115	241	353	818	946	1,085	217
Share of BPCL	22	53	86	199	230	264	58
Share of HPCL	23	49	77	179	206	237	24
Share of IOCL	70	138	190	440	509	584	135
Net under-recovery of oil companies	285	253	418	812	939	1,077	303
Share of refining companies	27	—	—	—	—	—	—
Share of upstream companies	140	205	257	543	629	721	173
Share of ONGC	120	170	220	465	538	617	98
Share of GAIL (b)	11	15	14	30	34	39	4
Share of Oil India	10	20	23	49	56	65	-
Net under-recovery of R&M companies (BPCL, HPCL, IOCL)	118	48	161	269	311	357	130
Pre-tax profits of R&M companies	74	96	151				151

Note:

(a) Share of upstream companies assumed at 33.33% and share of oil bonds based on oil bonds announced for FY2008.

(b) Our official crude forecast for FY2009E is US\$110/bbl.

Source: Kotak Institutional Equities estimates

Profitability of downstream companies in FY2008 (Rs bn)

	BPCL	HPCL	IOCL	Total
Reported refining margins (US\$/bbl)	5.6	6.5	9.0	
Reported inventory gains	10	0.7	14.9	
Pre-tax profits	25	11	116	152
Net profits	16	11	74	101
Subsidy loss	179	162	431	772

Source: Company, Kotak Institutional Equities

Current marketing losses are still very high

Estimation of marketing losses

	FY2007	FY2008	Current
Subsidy loss on diesel (Rs/l)	2.0	3.6	7.1
Subsidy loss on gasoline (Rs/l)	1.6	4.6	3.4
Subsidy loss on LPG (Rs/cylinder)	187	248	300
Subsidy loss on kerosene (Rs/l)	16.5	17.1	27.0
Dated Brent price(US\$/bbl)	64.8	78.9	87.3

Source: MOPNG, Kotak Institutional Equities estimates

Gross under-recovery in FY2009E will be significantly higher than FY2008 levels

Estimation of gross under-recovery for FY2009E

	FY2007	FY2008	FY2009E
Government estimate of gross under-recovery	494	771	2,014
KIE estimated gross under-recovery in April-September 2008			949
KIE estimated gross under-recovery at current levels of crude price (a)			91
KIE estimated gross under-recovery for October-March 2009 (b)			547
KIE estimated gross under-recovery			1,496
Subsidy loss on diesel in FY2007, FY2008 or current levels (Rs/l)	2.0	3.6	7.1
Subsidy loss on gasoline in FY2007, FY2008 or current levels (Rs/l)	1.6	4.6	3.4
Subsidy loss on LPG in FY2007, FY2008 or current levels (Rs/cylinder)	187	248	300
Subsidy loss on kerosene in FY2007, FY2008 or current levels (Rs/l)	16.5	17.1	27.0
Dated Brent price in FY2007, FY2008 or currently (US\$/bbl)	64.8	78.9	87.3

Note:

(a) Based on international product prices and retail domestic prices as on September 16, 2008

(b) Gross under-recovery for October-March 2009E computed using gross under-recovery at current levels.

Source: MOPNG, Kotak Institutional Equities estimates

Economy

Sector coverage view

N/A

RBI slew of measures may provide temporary stability but more may be needed

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- **Additional Liquidity support of 1% of NDTL under LAF - implies diluted 1% SLR cut**
- **Second LAF reinstated on all days**
- **Interest rate caps on FCNR(B) and NR(E)RA deposits increased**
- **Measures likely to stabilize rupee at about Rs46/USD in near term; soften overnight interest rates to 9% but more measures may be needed ahead**

With INR/USD depreciating to 46.88 at close of September 16 (unprecedented 1.7% depreciation in a single day and 14.4% so far in FY2009) and call rates spiking to a high of 16% intra-day, RBI stepped in to provide succor on liquidity and currency. It announced market measures aimed at improving (1) US dollar inflows and (2) ease liquidity tightness. In our view, the latter is also significant as it immediately improves RBI's degrees of freedom for protecting the rupee by its dollar selling interventions in forex markets without fears of rupee liquidity drying up further. We expect these measures to stabilize the rupee at stronger than current levels, but further measures to augment dollar inflows may be needed ahead.

Additional Liquidity Support under LAF

We believe that the RBI move on additional liquidity support under LAF is a de-facto cut in the Statutory Liquidity Ratio (SLR) of 1%, though this comes with riders that dilute its impact. The RBI move is intended to:

- Allow banks to obtain liquidity from RBI under its Liquidity Adjustment Facility (LAF) against the collateral of eligible securities that are in excess of the prescribed SLR to the extent of 1% of their net demand and time liabilities (NDTL).
- The banks would, however, have to seek waiver of penal interest rate for this SLR breach of 25%.

It is a 1% SLR only in a limited sense – deterrent attached and limited use

In our view, though the RBI move does not exactly tantamount to a 1% SLR cut. Our reasoning:

- 1) The rider that banks need to apply for the waiver of penalty on SLR violation of stipulated 25% (up to 24%) has a reputational cost for the banks and would act as a stringent deterrent.
- 2) The measure is purely ad hoc and temporary and banks would not be confident on doing ALM management on this basis
- 3) Banks may still have to do borrowings in CBLO and repo market outside LAF on the basis of 25% SLR

SLR ratio is the ratio of bank's investments in eligible assets (cash, gold and unencumbered approved securities which are G-secs) to its NDTL. First violation of SLR is penalized at a 3% above the bank rate (currently at 6%). In our calculation, an SLR cut of 1% at the current juncture would have released lendable resources of the banks (through credit or non-SLR investments) of about Rs370 bn (about US\$8 bn). However, as a result of (1) the requirement that banks need to apply for the release of resources and (2) that the measure is ad hoc and temporary, the release of resources may turn out to be only nominal.

Re-introduction of Second LAF on all days may help bring overnight rates to 9%

In our view, RBI move to re-introduce Second LAF (SLAF) on a daily basis would help to immediately bring overnight rates – call, CBLO and market repo – to the upper end of the LAF corridor set by the RBI repo rate, currently at 9%. RBI announced that:

- It would henceforth be conducting SLAF daily till further notice

Currently, RBI conducts LAF between 9.30-10.30 am daily, while the SLAF is conducted between 4.00-4.30 pm only on reporting Fridays. As a result, except for the reporting Fridays, banks which may not be able to correctly assess their liquidity facilities can get caught short intra-day and this puts upward pressures on the overnight rates when the system on the whole is in substantially in liquidity deficit. Currently, liquidity conditions are tight in view of advance tax flow collections. As a result, the call money rates had spiked to a weighted average of 13.1% (range of 8.7-16.0%) yesterday.

Interest rate caps on bank deposits from abroad increased

In an effort to augment dollar inflows to protect sharp depreciation of rupee, RBI increased the interest rate caps on bank deposits from abroad as follows:

- Interest rate ceilings on Foreign Currency Non-Resident deposits on which exchange risk is borne by the banks [FCNR(B)] of all maturities increased by 50 bps (to LIBOR/Euribor/Swap rates minus 25 bps from LIBOR/Euribor/Swap rates minus 25 bps)
- Interest rate ceilings on Non-Resident (External) Rupee [NR(E)RA] deposits of 1-3 year maturity increased by 50 bps (to LIBOR/Euribor/Swap rates plus 50 bps from the earlier ceiling at LIBOR/Euribor/Swap rates)

We believe that these measures would have a small impact on increasing dollar inflows. There have been net inflow of US\$0.5 bn in Non-resident Indian (NRI) deposit schemes in the first four months of FY2009 (April-July), of which NR(E)RA accounts for US\$0.28 bn and Non-Resident Ordinary (NRO), which is also maintained in rupees accounts for US\$0.62 bn. In contrast, there have been outflows in FCNR(B) of US\$0.40 bn. Increase in interest rate ceilings is aimed at improving the inflows ahead but are likely to have only a small impact. The stock of NRI deposits stood at US\$42.6 bn (US\$26.6 bn in NRE(E)RA+US\$13.8 bn in FCNR(B)+US\$3.3 bn in NRO).

Combined impact could stabilize rupee in near term, but more measures may be needed

As an update to our assessment to our Economy note of September 16; *'Liquidity may become less tight but rupee likely to be in 46 plus zone in 3QFY09'* we note that the combined impact of liquidity and forex measures may stabilize rupee in near term and rupee could head back towards 46 mark, but more measures may be needed to quell the speculative attack on the rupee driven by arbitrage in the non-deliverable forward (NDF) markets. The liquidity situation could also improve moderately, but our fundamental call in yesterday's note stays. In our view, to alter that more measures may be necessary which could include (1) reversal to ECB regime of pre-August 2007 (2) further increase in FII investment caps in debt market (towards end of May, 2008, these caps were hiked to US\$5 bn in Gsec and US\$3 bn in corporate bond markets in place of earlier limits of US\$3.2 bn and US\$1.5 bn). Increase in FDI cap in insurance to 49% from existing 26% may, however, require some more time in view of requirement to make legal amendment.

Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	16-Sep-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	Shares (mn)	EPS (Rs)		PER (X)		EV/EBITDA (X)		Price/BV (X)		Dividend yield (%)		RoE (%)		Target Price (Rs)	Upside (%)	ADV-3mo (US\$ mn)																							
					2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E				2008	2009E	2010E																				
Energy																																										
Bharat Petroleum	362	REDUCE	118,606	2,800	328	39.8	40.7	38.3	(24.0)	2.1	(5.9)	9.1	8.9	9.4	3.6	3.9	2.9	0.9	0.9	0.7	1.2	1.2	1.2	1.1	11.4	10.4	8.9	360	(0.5)	5.7												
Cairn india	199	ADD	370,972	8,758	1,868	20.1	3.9	20.3	(105)	(3,390)	4.1	17.0	15.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0											
Castrol India (a)	341	ADD	42,217	997	124	20.1	23.6	24.1	64.6	17.5	2.1	17.0	14.5	14.2	9.9	8.6	8.4	10.2	9.6	8.9	4.1	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3											
GAIL (India)	419	BUY	354,031	8,358	846	30.8	36.8	42.0	21.7	19.5	14.3	13.6	11.4	10.0	7.8	7.0	7.0	2.5	2.2	1.8	2.4	2.6	3.1	18.2	19.2	18.7	470	12.3	14.8													
GSPIL	54	ADD	30,387	717	563	1.8	3.6	5.1	8.5	103.8	4.0	30.4	14.9	10.6	9.7	6.8	4.8	2.5	2.1	1.9	0.9	0.9	1.9	2.6	8.7	15.3	18.8	69	27.8	2.5												
Hindustan Petroleum	249	REDUCE	84,483	1,994	339	33.5	26.1	33.4	(16.4)	(21.9)	27.7	7.4	9.5	7.5	5.9	3.8	2.3	0.7	0.6	0.6	1.2	0.9	1.2	9.6	6.8	7.9	260	4.3	5.5													
Indian Oil Corporation	418	REDUCE	493,133	11,641	1,179	60.5	40.9	61.8	82.2	(32.5)	51.2	6.9	10.2	6.8	4.5	8.2	7.6	1.0	0.9	1.3	1.4	3.4	3.8	4.7	17.2	10.1	13.5	500	19.6	3.9												
Oil & Natural Gas Corporation	953	BUY	2,037,290	48,095	21,399	42.0	131.5	147.3	8.2	42.9	12.0	10.4	7.2	6.5	3.9	2.5	2.0	1.7	1.4	1.4	3.4	3.8	4.7	19.4	24.2	22.8	1,300	36.5	52.4													
Petronet LNG	54	ADD	40,463	955	750	6.3	5.8	6.5	—	(7.6)	10.5	8.5	9.2	8.3	5.4	6.8	5.6	2.1	1.8	1.5	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8												
Reliance Industries	1,928	RS	2,534,210	59,826	1,314	101.7	105.8	159.3	23.0	4.0	49.5	19.0	18.2	12.2	11.4	9.1	5.5	2.8	2.5	1.9	0.6	0.8	1.1	1.8	1.5	1.8	1.5	1.8	1.5	1.8	1.5											
Reliance Petroleum	148	REDUCE	667,575	15,760	4,500	(1.1)	2.4	16.9	n/a	n/a	617.4	n/a	62.9	8.8	n/a	30.7	7.2	5.0	4.6	3.2	—	—	1.3	(3.5)	7.6	42.8	150	1.1	94.4													
Energy																																										
Industrials																																										
ABB	820	REDUCE	173,754	4,102	212	23.2	28.6	35.4	44.5	23.2	33.7	35.3	27.7	23.2	20.9	16.6	12.9	10.7	8.1	6.2	0.3	0.3	0.3	0.4	34.8	32.1	30.3	875	6.7	10.4												
AIA Engineering	1,493	BUY	28,064	663	19	70.9	89.4	114.2	38.1	26.1	27.7	21.1	16.7	13.1	15.7	10.3	8.0	4.6	3.7	3.0	0.4	0.6	0.8	24.0	24.2	24.6	1,600	7.2	0.2													
BGR Energy Systems	278	REDUCE	19,980	472	72	12.3	18.3	23.2	(67.1)	49.5	26.7	22.6	15.1	11.9	13.8	9.3	8.1	4.0	3.2	2.6	0.4	0.7	0.8	30.1	23.5	24.1	325	17.1	3.6													
Bharat Electronics	878	ADD	70,240	1,658	80	102.1	104.4	111.1	11.3	2.3	6.4	8.6	8.4	7.9	3.3	3.0	2.6	2.1	1.8	1.5	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8			
Bharat Heavy Electricals	1,646	ADD	805,750	19,021	490	58.4	73.1	96.9	22.9	25.1	32.6	28.2	22.5	17.0	15.2	11.9	9.1	7.5	6.0	4.7	0.9	0.9	1.3	29.2	29.5	31.1	2,000	21.5	78.6													
Dredging Corporation	429	REDUCE	12,025	284	28	55.3	48.7	57.0	(8.3)	(12.0)	17.2	7.8	8.8	7.5	4.1	3.8	3.1	1.0	0.9	0.8	3.5	3.5	3.5	12.5	10.3	11.1	475	10.6	0.1													
Larsen & Toubro	2,525	BUY	748,402	17,668	296	75.9	117.5	149.1	20.8	54.8	27.0	33.3	21.5	16.9	20.8	13.0	10.2	6.3	4.2	3.3	0.7	0.8	0.8	22.7	23.6	22.4	3,600	42.6	119.8													
Maharashtra Seamless	285	BUY	20,083	474	71	31.4	37.5	44.7	(18.3)	19.6	19.1	9.1	7.6	6.4	5.4	4.8	4.1	1.7	1.5	1.2	1.6	2.0	2.4	20.9	20.8	20.7	390	37.0	0.9													
Siemens	477	REDUCE	160,927	3,799	337	18.2	18.8	25.9	60.4	3.1	38.0	26.2	25.4	18.4	15.3	14.6	10.3	8.8	6.8	5.2	0.5	0.6	0.6	39.9	30.2	32.0	570	19.4	7.4													
Suzlon Energy	201	ADD	315,505	7,448	1,567	6.6	11.4	17.7	9.5	73.5	55.1	30.6	17.7	11.4	15.3	11.7	8.9	3.5	2.9	2.3	0.5	0.5	0.5	16.3	17.7	22.1	300	49.0	41.3													
Industrials																																										
Infrastructure																																										
IRB Infrastructure	135	BUY	44,802	1,058	332	3.4	7.3	15.7	150.9	111.5	116.3	39.3	18.6	8.6	14.0	12.9	6.1	2.7	2.3	1.8	—	—	—	10.7	13.4	23.3	195	44.7	0.6													
Media																																										
DishTV	32	BUY	15,912	376	500	(9.6)	(9.9)	(4.4)	n/a	(7.8)	(7.3)	(3.3)	(3.6)	(7.3)	(9.3)	(10.0)	66.3	(3.9)	(6.2)	(3.0)	—	—	—	167.9	125.6	71.3	56	75.8	4.5													
HT Media	120	BUY	28,157	665	234	4.3	4.2	7.5	4.7	(2.0)	77.1	27.8	28.4	16.0	15.9	15.7	8.8	3.3	3.0	2.6	0.3	0.3	0.7	12.2	11.0	17.2	175	45.6	0.3													
Jagran Prakashan	74	BUY	22,272	526	301	3.3	3.1	5.0	33.5	(6.3)	22.7	24.2	14.8	12.7	12.9	8.2	4.1	3.9	3.5	2.7	2.5	3.4	2.5	3.4	18.7	16.6	25.1	95	28.5	0.3												
Sun TV Network	223	REDUCE	87,821	2,073	394	8.3	9.7	12.0	30.7	16.7	23.6	26.9	23.0	18.6	14.2	11.9	9.7	5.8	5.0	4.5	1.1	1.3	2.7	24.8	24.2	26.1	260	16.7	1.6													
Zee Entertainment Enterprises	215	ADD	93,152	2,199	434	8.9	10.5	13.9	62.6	17.8	32.7	24.2	20.5	15.5	17.6	13.3	10.1	3.3	2.9	2.6	0.9	1.2	1.6	14.2	15.1	17.8	260	21.0	6.9													
Media																																										
Metals																																										
Hindalco Industries	114	REDUCE	198,028	4,675	1,742	13.1	16.2	14.6	(10.9)	23.5	(9.9)	8.7	7.8	5.5	4.3	4.2	4.1	4.2	4.1	0.7	0.7	1.2	1.6	1.6	14.3	12.7	9.4	150	32.0	11.3												
National Aluminium Co.	418	REDUCE	269,289	6,357	644	25.2	30.3	33.5	(31.8)	20.0	16.6	16.6	13.8	12.5	8.8	7.5	6.0	2.9	2.5	2.2	1.8	1.8	1.8	18.4	19.4	18.7	370	(11.5)	5.8													
Jindal Steel and Power	1,408	BUY	216,801	5,118	154	80.4	111.6	117.0	83.2	38.9	4.8	17.5	12.6	12.0	11.4	8.5	7.7	5.0	3.5	2.7	—	—	—	34.3	32.8	25.1	2,900	105.9	24.4													
JSW Steel	546	ADD	120,059	2,834	186	92.0	103.1	146.8	35.7	12.0	42.4	7.0	6.3	4.4	5.4	5.6	4.0	1.2	1.0	0.8	2.9	2.9	2.9	21.2	18.1	21.0	1,040	60.9	17.4													
Hindustan Zinc	495	ADD	208,942	4,933	423	104.0	72.2	71.5	(11.0)	(50.6)	(1.0)	4.8	6.8	6.9	3.2	4.0	3.5	1.7	1.4	1.2	1.5	1.5	2.0	44.0	22.5	18.4	750	51.7	3.2													
Sesa Goa	120	BUY	94,351	2,227	787	18.8	22.6	23.2	144.6	19.7	2.7	6.4	5.3	5.2	4.1	3.2	2.7	3.4	2.2	1.7	2.9	3.3	4.2	68.6	50.8	36.9	195	62.7	38.1													
Steelite Industries	478	SELL	338,766	7,997	708	63.7	52.3	51.5	(23.3)	(17.9)	(1.6)	7.5	9.1	9.3	4.2	4.2	3.7	1.5	1.3	1.1	—	—	—	26.6	14.8	12.6	460	(3.8)	33.6													
Tata Steel	487	REDUCE	399,939	9,441	822	75.7	116.9	106.1</																																		

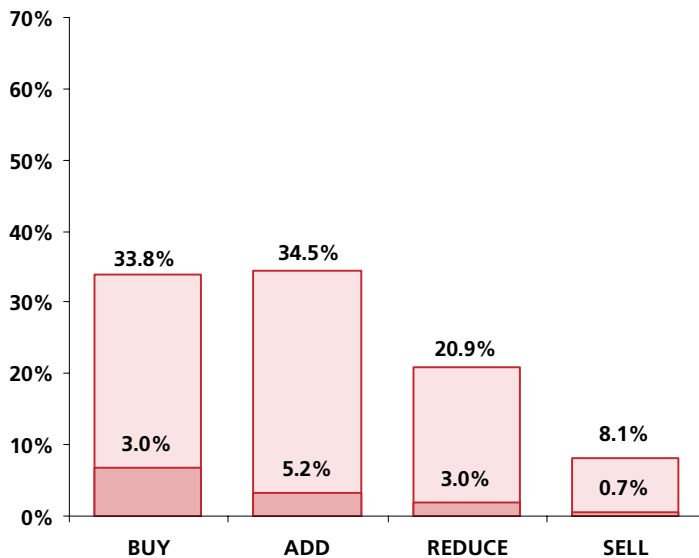
Kotak Institutional Equities: Valuation Summary of Key Indian Companies

Company	16-Sep-08 Price (Rs)	Rating	Mkt cap. (Rs mn)	shares (mm)	EPS (Rs)		EPS growth (%)		PER (X)		EV/EBITDA (X)		Price/BV (X)		Dividend yield (%)		RoE (%)		Target price (Rs)	ADVF- 3mo Upside (US\$ mn)										
					2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E	2008	2009E			2010E	2008	2009E	2010E						
Retail																														
Pantaloon Retail	301	BUY	51,817	172	8.0	14.2	19.9	93.2	76.5	39.9	37.5	21.2	15.2	14.7	9.5	7.8	3.0	1.9	1.7	0.2	0.3	0.3	8.6	10.7	11.5	460	52.6	1.1		
Rajesh Exports	39	BUY	11,353	268	8.2	5.9	6.9	80.4	282.1	16.6	4.7	6.6	5.7	1.5	0.2	(0.4)	1.5	0.8	0.8	1.1	1.2	26.8	12.3	13.5	120	207.3	2.6			
Titan Industries	1,142	BUY	50,713	1,197	44	35.1	41.1	49.8	55.2	17.3	21.0	32.6	27.8	23.0	21.9	17.1	13.7	10.8	8.3	6.5	0.7	0.8	1.0	37.7	33.6	31.6	1,350	18.2	0.5	
Vibhal Retail	370	ADD	8,293	196	22	18.1	21.6	35.6	37.2	19.2	65.2	20.5	17.2	10.4	10.5	7.2	5.5	3.1	2.6	2.1	-	-	-	20.2	16.2	22.1	485	31.0	0.2	
			122,176	2,884				53.0	20.1	32.7	23.1	19.2	14.5	11.4	8.9	7.2	3.8	2.5	2.1	0.4	0.6	0.6	16.4	12.9	14.8					
Technology																														
HCL Technologies	222	REDUCE	153,943	695	15.3	22.3	25.4	(19.0)	46.0	13.8	14.5	9.9	8.7	8.1	6.5	5.4	3.1	2.6	2.2	3.6	3.6	3.6	21.4	28.1	27.3	250	12.9	5.3		
Heavys Technologies	40	SELL	5,657	134	14.2	7.7	4.7	5.6	(13.7)	282.1	5.2	8.4	7.1	2.0	1.9	1.3	0.8	0.7	4.0	4.0	4.0	4.0	15.1	9.4	10.4	50	25.6	0.4		
Infosys Technologies	1,566	BUY	899,114	21,226	57.4	79.1	102.1	118.1	18.0	29.1	15.7	19.8	15.3	13.3	15.6	11.7	9.4	6.5	5.0	3.9	2.1	1.6	1.8	36.1	36.8	33.1	2,100	34.1	82.6	
Mphasis BFL	226	SELL	47,098	1,112	20.8	12.2	15.6	18.5	67.6	27.3	18.8	18.4	14.5	12.2	11.1	8.7	7.1	4.1	0.6	2.8	1.5	1.8	2.0	23.6	25.6	25.4	220	(2.6)	2.1	
Mindtree	333	BUY	13,063	308	39	26.1	35.7	43.4	14.8	36.5	21.7	12.7	9.3	7.7	10.7	6.6	4.9	2.4	2.0	1.6	0.8	1.1	1.3	21.3	23.5	22.9	550	65.1	0.5	
Patni Computer Systems	194	SELL	26,910	635	13.9	33.4	25.2	29.7	42.5	17.7	5.8	7.7	6.5	2.8	2.4	1.6	1.0	0.9	0.8	1.0	1.2	1.2	1.4	19.2	11.7	12.7	260	34.3	1.6	
Polaris Software Lab	79	SELL	7,771	183	98	7.4	10.1	11.8	(27.6)	36.0	16.2	10.6	7.8	6.7	5.0	3.6	2.8	1.2	1.1	0.9	2.2	2.2	2.2	11.7	14.3	14.8	90	13.9	6.1	
Satyam Computer Services	356	BUY	742,968	5,736	68.2	25.2	32.2	37.5	17.5	27.6	14.1	11.1	9.5	10.8	9.8	6.2	3.4	2.7	2.2	2.8	3.9	2.6	3.9	26.0	27.1	25.7	500	40.4	40.5	
TCS	749	REDUCE	232,832	17,300	97.9	51.3	58.7	67.9	21.5	14.5	15.6	14.6	12.8	11.0	11.8	9.9	8.3	5.9	4.6	3.8	1.9	2.7	3.6	47.0	40.8	37.8	900	20.2	26.6	
Tech Mahindra	692	BUY	86,252	2,036	12.5	59.1	74.8	89.4	25.7	26.7	19.4	11.7	9.3	7.7	10.4	6.5	4.8	6.9	3.8	2.6	0.6	-	0.9	70.7	55.8	41.6	900	30.0	4.8	
Wipro	392	ADD	567,748	13,403	14.50	22.2	27.5	35.5	12.6	23.6	21.8	17.6	14.2	11.7	14.1	10.5	8.2	4.4	3.6	2.9	1.6	2.1	2.6	27.9	27.6	27.4	490	25.1	11.3	
			2,783,355	65,707				16.1	23.8	11.7	16.1	15.0	11.1	12.4	9.6	7.7	4.7	3.8	3.1	2.0	2.2	2.7	29.5	27.0	27.6					
Telecom																														
Bharti Airtel Ltd	774	REDUCE	1,469,164	34,683	1,898	35.3	47.0	57.0	65.0	33.2	21.1	21.9	16.5	13.6	13.3	9.7	7.4	6.5	4.6	3.4	-	0.5	0.8	39.1	32.9	29.1	840	8.5	78.7	
IDEA	79	REDUCE	209,150	4,937	2,639	3.9	4.6	5.5	78.5	15.7	20.8	20.1	17.3	14.4	11.7	8.8	7.3	5.9	4.4	3.4	-	-	36.4	29.1	26.6	100	26.2	16.7		
MTNL	92	REDUCE	58,244	1,375	630	6.0	6.5	7.0	(25.2)	7.7	8.2	15.4	14.3	13.2	1.4	1.5	1.5	0.5	0.5	0.5	6.5	6.5	6.5	6.5	6.5	6.5	32	100	8.2	3.7
Reliance Communications	366	SELL	755,630	2,064	25.0	25.6	34.8	76.4	14.1	21.9	14.6	12.8	10.5	10.4	8.9	7.0	2.7	2.2	1.8	0.2	-	-	16.1	19.9	19.8	390	6.5	91.4		
Tata Communications	426	REDUCE	121,310	2,864	285	10.9	12.0	13.3	(56.3)	9.2	11.2	38.9	35.6	32.0	16.2	15.1	13.1	1.8	1.8	1.7	1.1	1.2	1.5	4.4	4.7	4.9	450	1.0	3.3	
			2,613,499	61,697				61.9	23.9	20.6	18.5	14.9	12.4	11.8	9.3	7.3	3.6	2.9	2.4	0.4	0.6	0.7	19.4	19.6	19.3					
Transportation																														
Container Corporation	881	ADD	114,493	2,703	130	57.7	67.5	75.0	7.8	17.0	11.0	15.3	13.0	11.7	10.5	8.9	7.4	3.6	3.0	2.5	1.4	1.6	1.8	25.8	24.9	23.1	950	7.9	1.3	
Gateway Disruptors	37	BUY	10,028	237	11.5	6.4	8.1	10.8	(5.0)	26.5	33.5	13.5	10.7	8.4	7.1	5.4	1.4	1.3	1.2	3.4	3.8	3.9	10.8	12.9	15.8	125	43.9	1.0		
GE Shipping	813	BUY	1,125	152	105.9	72.7	48.2	77.6	(31.3)	30.7	6.3	4.3	6.5	4.4	5.4	6.1	1.1	0.9	0.8	4.8	5.8	3.9	43.2	23.4	13.7	500	59.8	2.7		
Jet Airways	514	SELL	44,391	1,048	86	(76.5)	(123.3)	96.4	(2,857)	71	206.7	(6.7)	(4.2)	5.3	60.0	17.7	6.3	1.0	1.3	1.0	-	-	1.4	(19.5)	(26.5)	21.5	450	(14.5)	1.5	
			216,549	5,112				3.9	(42.9)	162.9	12.2	21.3	8.1	12.1	10.0	6.5	1.7	1.6	1.4	2.0	2.3	2.2	13.9	7.7	17.4					
Utilities																														
CESC	281	BUY	35,045	827	12.5	27.8	28.2	31.1	(23.3)	1.4	10.4	10.1	10.0	9.0	5.2	6.0	7.0	1.1	1.0	0.9	1.4	1.4	1.8	12.5	10.6	10.5	500	78.3	1.2	
Lanco InfraTech	259	BUY	57,654	1,361	22.2	16.0	18.7	31.3	88.4	17.4	67.1	16.2	13.8	8.3	13.2	16.0	13.3	2.9	2.4	1.9	(2.3)	-	-	20.2	18.9	25.2	530	104.4	17.9	
NTPC	170	REDUCE	1,405,027	33,169	8,245	8.9	9.5	10.3	3.5	6.7	8.0	19.1	17.9	16.5	13.8	14.9	15.0	2.6	2.4	2.3	2.1	2.2	3.0	14.4	14.2	14.3	179	5.0	32.3	
Reliance Infrastructure	843	BUY	194,738	4,597	231	37.6	49.4	50.0	13.9	31.3	1.2	22.4	17.1	16.9	29.0	26.2	24.0	1.2	1.2	1.1	0.8	0.9	1.0	-	-	1,250	48.2	102.7		
Reliance Power	161	REDUCE	385,046	9,090	2,397	0.4	2.1	2.6	-	443.9	25.2	42.24	77.7	62.0	-	-	-	2.8	2.6	2.6	-	-	-	1.2	3.5	4.3	180	12.0	42.9	
Tata Power	976	BUY	227,405	5,368	233	29.7	38.1	39.9	11.6	28.5	4.6	32.9	25.6	24.5	22.8	20.3	20.9	3.0	2.3	2.1	0.9	1.0	1.0	10.0	10.3	9.0	1,540	57.8	30.2	
			2,304,914	54,413				8.8	14.8	10.1	23.7	20.7	18.8	16.8	18.5	19.2	2.4	2.2	2.1	1.4	1.4	1.5	2.0	10.1	10.7	11.0				
Others																														
Alban Offshore	2,328	ADD	90,003	2,125	39	72.3	263.4	482.1	(1,066)	264.4	83.0	32.2	8.8	4.8	16.9	8.1	5.3	10.3	4.3	2.3	0.2	0.4	0.6	51.7	59.4	53.6	2,700	16.0	19.5	
ABG Shipyard	340	-	17,319	409	51	22.8	32.1	56.2	39.0	40.6	74.8	14.9	10.6	6.1	10.2	7.8	4.5	2.7	2.0	1.1	0.5	0.6	0.8	20.4	21.5	24.7	-	129.2	0.7	

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As of June 30, 2008

Ratings and other definitions/identifiers

Rating system

Definitions of ratings

BUY. We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

ADD. We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

REDUCE: We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

SELL: We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

Our target price are also on 12-month horizon basis.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive (A), Neutral (N), Cautious (C).

Other ratings/identifiers

NR = Not Rated. The investment rating and target price, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

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